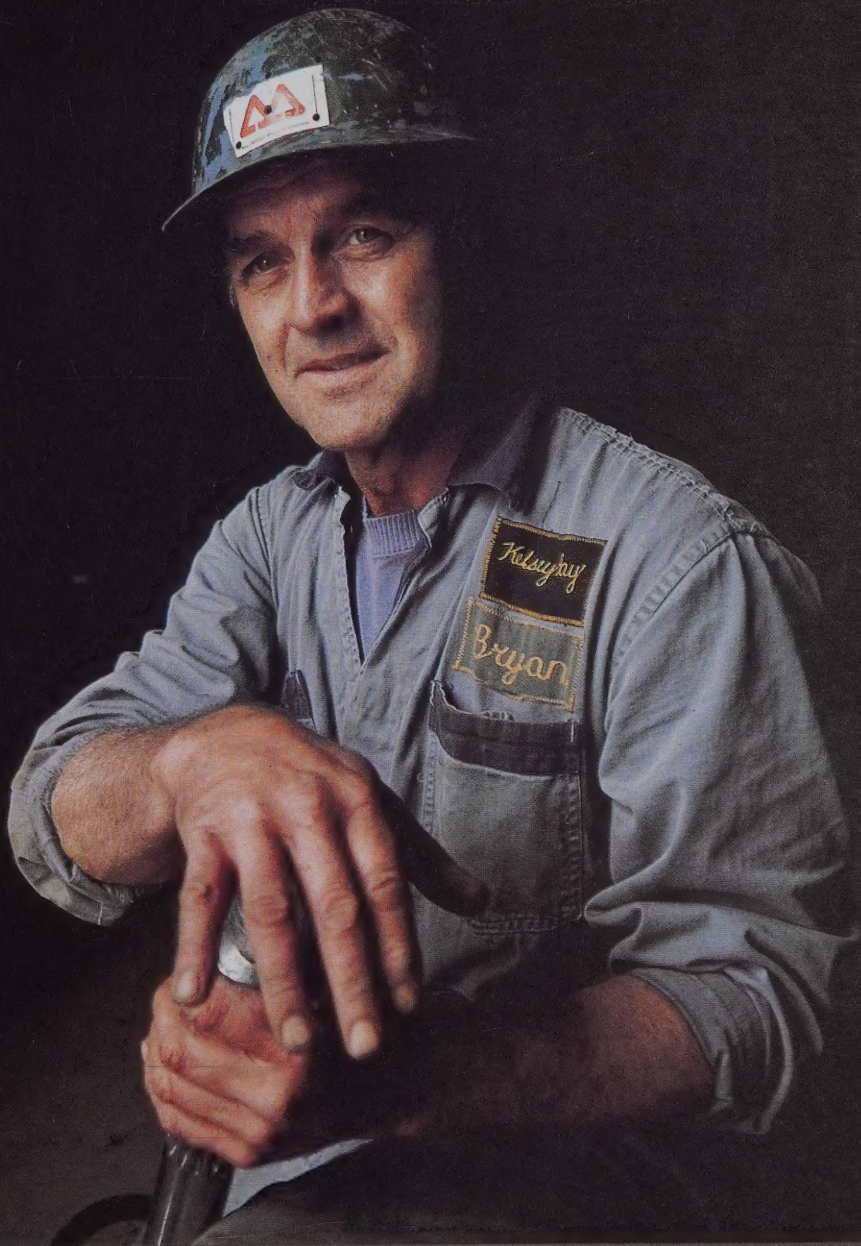


MacMillan Bloedel Limited

1976 Annual Report



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MacMillan Bloedel Limited 1976 Annual Report

MACGILLIVRAY, JAMES MCNEIL, STEPHEN LUTER, WATSON JONES, LEON OLIVER, ROBERT POPE, DALLAS RAMSEY, DAVID SMYLY, DUCKALEW, ELIJAH CLIFTON, CG ETHERIDGE, ALLEN FRANZ, ANTHONY GRAYSON, MATTIE JOHNS, JCIRBY, WATT HARRIS, TOM WILLIAMS, WILLIAM JOSLIN, LESLIE TYLER, LEWIS YOUNG, CLAUDE ABLE, EDWARD DUNAGAN, HIRAM GIBSON, JD KELLY, NORRIS LOVELAKE, TOM MOYE, JOHN REASE, ELIZAH, CRIDLAND, JOHN PAINE, TERRY SUTTON, ART HEMING, FRED TURNER, ANTTI NIEMI, JG HAMELIN, L BERGERON, HENSON BENNETT, CALIXTO ALONSO, ESEN, R MICHAUD, MICHAEL BENNETT, JEAN DESCHAMPS, JE ROBERTS, GILBERT FLORES, GUILLERMO GARCIA, JOSEPH COFFEY, RW YOUNG, FLEX J, NE HOPKINS, FRED GUNTER, STUART COOMBS, DAVID FRICKER, BJ NEWMAN, LOUISE LAW, ART BRIGGS, JOAN RODRIGUEZ, M CURRELL, WENDY BUTLER, D, ARTHUR LAFRAMBOISE, JOHN STEFF, BILL RYAN, AH WEBBER, JOHN STEFF, BRIAN POINTON, WALLACE JOHNSON, ANDREW LORIGO, FELIPE MACIEL, ROBERT KNOLL, THOMAS MORRIS, GENE NAULT, EMMA BAYLY, JC STEFF, ROBERT ORTA, WILBERT PRATT, MARCEL POTAN, 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HINTON, RICHARD REED, ALAN NOWAK, CALVERT KNUDSEN, KEN PEDLEY, DOROTHY BARNETT, G AVOLA, RG ABRIC, CP ACKER, KASPIK, ROBERT PITTS, EVELYN JUBB, GUY HARRY, JL SULLIVAN, JOHN MAGEE, PERCY TATE, LOY ELKINS, ROBERT GEORGE, VAN FORMAN, ROSA ERNST, WA ALDERMAN, WD ALEXANDER, GP ALL, DERSEN, CANDREWS, RG ARSENEAU, ARE, G MCLEAN, HELEN MAKHOUL, CA, LORENE GILPEN, H WEDD, D HARRIN, LLIPS, M FIELD, JOSEPHINE ROCCO, E, STEVENS, R FULLERTON, A WARRING, ANNA TABAR, MARY MILLER, LORETTA, RIA KASMIN, H WILSON, R KHAN, MISH, VEY, F MULHOLLAND, LILA KOKINDA, ROSIE MILLIGAN, ANNA KOCH, ALICE, HAM, J SELVEY, MARTHA DAVIS, MARY, ENCE MILLER, SANDRA WESTERFIELD, D HOOD, P COOKE, A RICHARDS, P VIS, CY PALICKA, ERIKA FRENCH, DIANE EA, LASKEY, W THOMAS, C WESTLEY, R LO, SHARON SCARNIAC, WILLIE MAE DENN, F HUSSAIN, A RICHARDS, R CLARKE, MER, NORMAN TEGGART, JOHN KERRI, N EUGENE CUTLER, CLYDE BARHAM, E, O RICHARDSON, D BIGGS, P SMITH, EDI, L RUMNEY, W PERCIVAL, FRANK F, ALVATORE, HERMAN LOVEJOY, JOSE, EY PULS, 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JESUS CASTELLON, LN CHRISTI, ORRAL, ANTONIO CORTES, GARY COW, PEPPER, A JONES, K CULBERT, J CRA, CHOUDHRY, S ELLIS, DONALD DE MOSS, OREE, DAVID DROW, FRED ESSLING, CHOUDHRY, M LACEY, B SPRY, JOHN, FUGIO FLORES, NAPOLEON GAERLAN, A DOWSKI, A TARLING, ALFREDO ITUR, ROMINE, ALBERT JARAMILLO, WILLIE, NIGHT, M STEIGERWALD, JUAN JIMEN, INSON, A GOWER, P WRIGHT, RUTHIE, DERSON JONES, DANIEL KRAWIEC, A P, RAJPUT, ROBERT LAFAYETTE, OSMU, HUSSAIN, N SHAIK, A MAJID, D JAMES, ICA, ALBERT LOPEZ, JESSIE MATTHEW, N, D BEECHING, A MOHAMMED, C HAID, ISH, WILFORD MAULDIN, DOUGLAS MA, CADO, EDDIE MILLER, VMAILLARD, K BE, K SAMUEL, R MCDONALD, M BOOTA, E, SKI, JEAN NAULT, JOSE OCAPO, ABRA, EDERMAN, R CROUCHER, B O'HARA, A, DRIA ORTIZ, ROBERT PADILLA, THOMA, PATZ, BILLY PAUL, W BUTLER, M BEAN, EST PHILLIPS, ROBERT POLK, ROBERT, QUINTANA, THOMAS RIVERA, S GRAY, M JAMES, ROBERT RODARTE, S SHA, IBRAHIM, HUMBERTO RODRIGUEZ, S, RODRIGUEZ, M ZAMAN, HARDANY RO, ILO ROQUE, VICTOR RUIZ, P FARRELL, RMAN, THOMAS SALCIDO, ALBERT SIL, SIMMONS, M NAZIR, B KHAN, WHUSSA, AZIR, W THOMSON, BULFORD SMITH, MAN, ROBERT SPEAKMAN, MICHAEL, NIG, M GEHAN, N OPPAL, JAMES STEPH, WART, JAMES STOCKER, EDWARD THY, ECH, V RAJPUT, R CLARK, R HALL, M BA, OGLU, ARTHUR URIBE, CANO VARGAS



Report to the Shareholders for the Six Months Ended June 30, 1976

Net earnings for the first half of 1976 amounted to \$10.1 million (\$.48 per share) as compared to \$19.9 million (\$.94 per share) during the corresponding period in 1975. Sales and other income amounted to \$741.7 million as compared to \$715.9 million in the first six months of 1975.

The slow recovery in the economies of most industrialized nations in which MacMillan Bloedel markets its products continued during the second quarter of 1976. Demand for most building materials displayed some improvement over previous levels while consumption of pulp and paper products remained relatively firm. The resultant improvement in profitability from the Company's principal manufacturing activities produced net earnings of \$9.5 million (\$.45 per share) in the second quarter despite the continuing impact of adverse foreign currency fluctuations and losses from transportation activities.

While other markets for building materials have been slower to react, the level of housing starts, particularly in the single family area, and other construction activity in the United States increased in the first half of 1976 relative to the similar period in 1975. The resultant modest increase in demand permitted somewhat higher operating levels than 1975. However, current shipment levels remain significantly below those experienced during 1973 and 1974. Excess capacity will, therefore, limit further improvement in profitability of building materials operations until consumption strengthens appreciably.

Consumption of newsprint remains relatively firm while increased demand for pulp is gradually reducing producer inventory levels. Increased economic activity, particularly in the United States, is having a positive effect on linerboard shipments. Moreover, price increases have been implemented for linerboard in the United States, on May 1, and newsprint in both the United States and Canada, on July 1, which will help to maintain profit margins in these commodities. The economic recovery of MacMillan Bloedel's off-shore markets has been less satisfactory and in Europe weak markets for both fine paper and hardwood pulp have hurt the profitability of those companies in which MacMillan Bloedel has an equity interest.

Improvement in markets for the Company's packaging products has not materialized as quickly as expected. Nonetheless, some improvement is anticipated, both in North America and in Europe as the level of economic activity continues its gradual recovery.

Due to a modest resurgence in world trade, the freight and charter markets for the Company's fleet of dry-cargo vessels strengthened marginally during the second quarter. The rates at which the Company's ships can be deployed remain, however, significantly below the average chartered-in cost; accordingly, a transportation loss of \$4.2 million (before income tax recoveries) was experienced in the second quarter making a total of \$11.9 million for the six months ended June 30, 1976. Because of the excess supply of dry cargo vessels, it is expected that, barring an unexpected major upturn in the world economy, the Company will continue to incur losses in its transportation activities for the remainder of 1976 and into 1977, when the fleet will be reduced to approximately half its present size.

The Company views with concern the further modification of the Anti-Inflation guidelines on prices and profits. These additional changes have further added to the complexity of the programme, and will adversely affect the ability of the industry to earn an adequate return on investment. Such a return is essential for the long term viability of the industry and the economic well-being of Canada.

While the Directors view the improvement in the Company's results for the half year as an encouraging sign, nevertheless they have decided that it would be prudent to defer any resumption in the payment of dividends until recovery is more firmly established.

The Board of Directors is pleased to announce the appointment of C. Calvert Knudsen as President and Chief Executive Officer of the Company, effective September 1, 1976. Mr. Knudsen brings with him broad experience in the forest products industry having been President of Evans Products Company from 1964 to 1968, and for the last seven years a senior Vice-President of Weyerhaeuser Company.

Chairman and Acting President

Vancouver, Canada
July 30, 1976

CONSOLIDATED STATEMENT OF EARNINGS*(in millions of dollars)*

	Three months ended June 30		Six months ended June 30	
	1976	1975 (Note 1)	1976	1975 (Note 1)
Sales and other income:				
Sales of products and services	\$ 382.9	\$ 407.5	\$ 740.9	\$ 712.0
Other income	.3	3.0	.8	3.9
	<u>383.2</u>	<u>410.5</u>	<u>741.7</u>	<u>715.9</u>
Costs and expenses:				
Cost of sales and services	320.4	342.7	637.6	606.3
Selling, general and administrative	28.5	28.3	55.1	54.4
Long term debt interest	7.3	6.3	14.1	12.3
Bank and other interest	.8	1.5	2.0	3.0
	<u>357.0</u>	<u>378.8</u>	<u>708.8</u>	<u>676.0</u>
Earnings before income taxes and other undernoted items	26.2	31.7	32.9	39.9
Income taxes (Note 2):				
Current	10.7	14.5	13.8	15.7
Future years	4.2	2.7	6.7	6.0
	<u>14.9</u>	<u>17.2</u>	<u>20.5</u>	<u>21.7</u>
Earnings before undernoted items	11.3	14.5	12.4	18.2
Equity in earnings (losses) of partly-owned companies	(1.3)	(.9)	(2.2)	1.2
Minority interests in subsidiaries	(.5)	—	(.1)	—
Earnings before extraordinary item	9.5	13.6	10.1	19.4
Extraordinary item (net of minority interest)	—	.2	—	.5
Net earnings	<u>\$ 9.5</u>	<u>\$ 13.8</u>	<u>\$ 10.1</u>	<u>\$ 19.9</u>
Basic net earnings per share (dollars):				
Before extraordinary item	\$.45	\$.64	\$.48	\$.91
After extraordinary item	\$.45	\$.65	\$.48	\$.94
Fully diluted net earnings per share (dollars):				
Before extraordinary item	\$.45	\$.63	\$.48	\$.89
After extraordinary item	\$.45	\$.64	\$.48	\$.92

Unaudited

**CONSOLIDATED STATEMENT OF SOURCE
AND APPLICATION OF WORKING CAPITAL***(in millions of dollars)*

	Three months ended June 30		Six months ended June 30	
	1976	1975 (Note 1)	1976	1975 (Note 1)
SOURCE OF WORKING CAPITAL:				
Net earnings	\$ 9.5	\$ 13.8	\$ 10.1	\$ 19.9
Components not affecting working capital (credits):				
Depreciation, depletion and amortization of logging roads	18.2	16.6	34.7	31.0
Future years' income taxes — long term portion	2.7	3.7	5.4	7.0
Equity in (earnings) losses of partly-owned companies	1.3	.9	2.2	(1.2)
(Profit) loss on disposal of long term assets	.3	(.1)	.6	(1.9)
Minority interests in subsidiaries	.5	.1	.1	.3
Amortization of intangible assets	.2	.4	.5	.7
Dividends received from partly-owned companies	—	2.0	.1	2.1
	<u>32.7</u>	<u>37.4</u>	<u>53.7</u>	<u>57.9</u>
Net proceeds from issue of long term debt	39.1	.4	39.9	39.7
Equity provided by minority interests (net)	.3	(5.1)	.3	8.9
Proceeds of disposals of long term assets	1.0	1.3	1.4	6.8
	<u>73.1</u>	<u>34.0</u>	<u>95.3</u>	<u>113.3</u>
APPLICATION OF WORKING CAPITAL:				
Additions to property, plant and equipment	17.8	26.6	28.0	44.3
Investments and other assets (including intangible assets)	1.5	8.5	2.1	11.9
Reduction in long term debt	8.3	4.1	10.4	6.7
Dividends — Shareholders of the company	—	3.2	—	13.8
— Minority shareholders of subsidiaries	.4	.3	1.0	.6
	<u>28.0</u>	<u>42.7</u>	<u>41.5</u>	<u>77.3</u>
Increase (decrease) in working capital	45.1	(8.7)	53.8	36.0
Working capital at beginning of period	196.7	228.9	188.0	184.2
Working capital at end of period	<u>\$ 241.8</u>	<u>\$ 220.2</u>	<u>\$ 241.8</u>	<u>\$ 220.2</u>

Unaudited

CONSOLIDATED BALANCE SHEET*(in millions of dollars)*

June 30

1976**1975**
(Note 1)

ASSETS				
Current assets	\$	472.6	\$	479.7
Investments and other assets		90.4		102.7
Property, plant and equipment, less accumulated depreciation, depletion and amortization		666.3		669.6
Intangible assets, less amortization		28.0		29.7
		<u>\$1,257.3</u>		<u>\$1,281.7</u>
LIABILITIES				
Current liabilities	\$	230.8	\$	259.5
Long term debt		376.6		350.3
Income tax allocations in respect of future years		109.0		99.9
Minority interests in subsidiaries		47.4		50.0
		<u>763.8</u>		<u>759.7</u>
SHAREHOLDERS' EQUITY				
Share capital		171.2		170.1
Retained earnings		322.3		351.9
		<u>493.5</u>		<u>522.0</u>
		<u>\$1,257.3</u>		<u>\$1,281.7</u>

Unaudited

CONSOLIDATED STATEMENT OF RETAINED EARNINGS*(in millions of dollars)*

Six months ended June 30

1976**1975**

Balance at beginning of period	\$	312.2	\$	343.3
Net earnings		10.1		19.9
Surplus arising out of shares issued by subsidiary company		—		2.5
		<u>322.3</u>		<u>365.7</u>
Dividends — \$.65 per share in 1975		—		13.8
Balance at end of period	\$	<u>322.3</u>	\$	<u>351.9</u>

Unaudited

NOTES:

1. Certain 1975 figures have been restated to give retroactive effect to a change in accounting for the cost of spur logging roads in British Columbia. As the Company made a general provision in 1975 the consolidated net earnings for the three months and the six months ended June 30, 1975 remain unchanged.
2. The effective income tax rate in the first half of 1976 is much higher than normal primarily because of foreign exchange translation losses for which income tax recoveries are not available.

These interim consolidated financial statements have been approved by the Board of Directors:

J. E. RICHARDSON, Director

J. O. HEMMINGSEN, Director

an industrial organization which makes
useful products and generates income
from which many thousands benefit.

SON-DAN QUICK-MARY WALKER-JOSEPH MYER-JOHN TOLSON-JERRY STAMAND-DONALD SPARKES-NEIL SMITH-G.H. LATEL-LIAN OGLESBY-SANDERS STEPHENS-PAUL URBANSKI-NATHANIEL FORESTER-JAMES PECHULIS-EDWARD HUDSON-FM GRIMS
MASON-BRIAN MELVIN-BEV MOORE-DJ HOLMES-OLIVER KING-CECELIA LIAO-ROSE GARCIA-ENRIQUE YERO-WILLIE BELLAMY-JOHN HARRIS-DOMENICK INTERDONATO-LUIS REYES-ANTHONY CANARELLI-UMBER
ES-J EDGEcombe-MARIE SHINKLE-LAJARAMILLO-R JORDANOFF-JOSE GARCIA-ENRIQUE YERO-WILLIE BELLAMY-JOHN HARRIS-DOMENICK INTERDONATO-LUIS REYES-ANTHONY CANARELLI-UMBER
ZMIJEWSKI-WANDREJESILO TUNDIDOR-KS MCLAY-ARCHIE BABCOCK-JOHN BAMFORD-GARY BARKHOUSE-DAVID BATES-DENNIS BLACK-BRIAN BLAIKIE-R SPILLANE-VIC MAURO-DENNIS GIBBS-JOH
KINS-GARY JOHNCOX-G DEWHURST-JOHN RAE-PHIL RICHARDS-OSCAR ROACH-RICHARD ROBERTSON-ROBERT SCOTT-STIRLING SCRIBNER-CA WILKINSON-GEORGE BAXTER-KEN BATHURST-JACK
SANTIAGO CHAN-LEE COLE-JOHN DEWAN-JT HOWARTH-JM MORRISSEY-JOE ALLEN-ROBERT LILES-WALTER LOCKE-ANGELO LUCCI-RALPH ALLEN-LEE BAILEY-GORDON BUSCH-ELDER BYRD-JOHN C

HISTORICAL REVIEW

Year		Sales and Other Income (in millions of dollars)	Net Earnings (Loss) (in millions of dollars)	Basic Net Earnings (Loss) Per Share (dollars)
1972				
	1st quarter	\$ 209.4	\$ 9.7	\$.47
	2nd quarter	236.2	11.8	.56
	3rd quarter	215.3	5.2	.25
	4th quarter	305.6	13.5	.64
		<u>\$ 966.5</u>	<u>\$ 40.2</u>	<u>\$1.92</u>
1973				
	1st quarter	\$ 271.4	\$ 19.7	\$.94
	2nd quarter	334.5	31.1	1.49
	3rd quarter	290.8	13.7	.66
	4th quarter	322.5	17.3	.81
		<u>\$1,219.2</u>	<u>\$ 81.8</u>	<u>\$3.90</u>
1974				
	1st quarter	\$ 329.9	\$ 20.1	\$.95
	2nd quarter	391.0	30.1	1.42
	3rd quarter	327.0	12.8	.60
	4th quarter	350.9	9.3	.44
		<u>\$1,398.8</u>	<u>\$ 72.3</u>	<u>\$3.41</u>
1975				
	1st quarter	\$ 305.4	\$ 6.1	\$.29
	2nd quarter	410.5	13.8	.65
	3rd quarter	265.0	(32.7)	(1.54)
	4th quarter	316.6	(6.1)	(.29)
		<u>\$1,297.5</u>	<u>\$ (18.9)</u>	<u>\$ (.89)</u>
1976				
	1st quarter	\$ 358.5	\$.6	\$.03
	2nd quarter	383.2	9.5	.45
	Six months	<u>\$ 741.7</u>	<u>\$ 10.1</u>	<u>\$.48</u>

Unaudited

ERZA-MJ HINTON-ACOOKE-DJ HILL-J GRAY-J ANDALO-SPEARCE-G HUGHES-S HILL-M BURNS-IRB MCCRINDLE-BA WELSBY-SK COOMBS-PRANSOME-NF ADAMSON-GF GODSELL-S OUGHTON-LV CHA
DAMSON-LR SPOONER-RD WILLIAMS-C CLIFFE-M DESMOND-C EVANS-AS HEWITT-EW HURN-SP MILLS-G MCCRINDLE-N PUGH-R DESMOND-JT JIMPSON-J RENDALL-K NORTON-J MURRAY-D SULLIVAN-J
ES-SM NICOLAS-KL KELLY-CE DMUNDS-DP FAIRFAX-P DAVIES-R DARE-J GILES-BJ WILLIAMS-TR BREEDS-LA MANSHP-SW ROBERTS-CJ DAVIES-B NEALE-R PODMORE-J DOHERTY-R WILLIAMS-JR EVA
BROWNIE-AH ROSS-JR WATERS-JD MITCHELL-R WARNES-SM PAISH-SE BRADFORD-L ROBINSON-KA KNIGHTLEY-S BRYANT-PC DAY-FA WARWICKER-AF SHAW-BFW APPI EFORD-RI ARREN-R DAVIS-P

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Cover:
GREG BRYAN
Tireman, Logging

MacMillan Bloedel's results for 1976 are accompanied in this report by portraits of a few, and names of thousands, of the nearly 24,000 people employed in the Company's world-wide enterprise. The names and photos remind us that MacMillan Bloedel is an association of people working in scores of occupations and, together, creating an industrial organization which makes useful products and generates income from which many thousands benefit.

R KAPOOR • K GAD
 ALLEN • J HINCHCLIFFE • N LANE • J WALLACE • S SOOD • E RAVEN • N BARBER • M FINLAY • A MCGIL
 LLIAM MOORE • CHARLIE MORGAN • HENRY MORGAN • NATHAN MORGAN • LARRY MORRIS • JAMES
 WILKINS
 • HUGH
 • MAC • HA
 DOBING
 JULIAN S
 JOHN W
 MSON •
 • S SING
 AMS •
 AUTERY
 • W CAIR
 HARE •
 HAS BU
 S DHAN
 JOHNS
 DICKIN
 EVANS
 • B GIL
 ELVE G
 NE • RE
 WAL • S
 GH • JS
 ERD • CH
 DSON •
 JS HUN
 ADAMS
 CM LAC
 HOKAS
 ER • LT
 ES • LM
 MP BRO
 MBER
 E CONN
 EY • LA
 S • BL D
 ERRISS
 ER • HG
 M • AH
 HALL
 MHOW
 CB JOH
 BILAN
 WITCH
 • D MAC
 SON • R
 RIGLE
 D MIL
 SON • J
 IAN • IZ
 PHILLIP
 DM PE
 GUES
 SANDI
 R • D S
 SON • J
 AYLO
 N • DM
 BELL • A
 SON •



RBANS S-DHALIWALJ SINGH-DHALIWALJ SINGH-DHALIWAL MAJOR SINGH
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 LA-HG GALLITZENDORFER-A GAUCH
 Y-SF GOLDHAWKE-DS GOLDHAWKE
 JEGREENING-BL GREENWOOD-NA G
 J HARDY-C HARRIS-N HARRIS-H HA
 ING-A HOFFMAN-RH HOGG-JM HOL
 RVIVERSEN-J IWANOWSKI-WR JACK
 DGE-JUNG TING-SEAN-F JURAN-RV
 E-B KERNAN-J KINNEAR-DK KIRK-M
 PAN-DJ LABINSKY-C LAGADITIS-R L
 LEE TIP WAN-RS LEIGH-CN LEIGH-A
 F-LOW-JE LOWGOOD-C LUOCHETTA
 AGGS-S MAH-MAHAL AMARJIT-S MA
 ANN PAKHAR-SINGH-KA MANSLEY-AM MANSLEY-S MANUCK-SM MANUCK-WM MARCONI-D MAR
 MATZELE-F MEXIMUIK-SO MAY-LV MAZZOCATO-RG MCCREA-W MODERNI-D MG McDONALD-I M
 H-MCLAUGHLIN-WJ MCLEAN-G MCLEOD-EA MCMONAGLE-RL MCMMUN-TL MCMMUN-N MCPHE
 REF-WR MJ LER-FE MJ LER-FW MILLINGTON-LM MILLS-HJ MINETT-WP MIRANDA-J MISKELL-

MacMillan Bloedel Limited and Subsidiaries

Financial Highlights

	1976	1975 (Decrease)	Per Cent Increase
	(\$000)		
For the year ended December 31			
Sales and other income	\$1,523,344	\$1,297,518	17.4%
Net earnings (loss)			
Amount	\$ 22,842	\$ (18,943)	—
Per Ordinary share (dollars)	\$ 1.07	\$ (.89)	—
Cash flow from operations			
Amount	\$ 102,360	\$ 61,941	65.3%
Per Ordinary share (dollars)	\$ 4.81	\$ 2.92	64.7%
Long term financing	\$ 41,052	\$ 45,568	(9.9%)
Net additions to property, plant and equipment *	\$ 64,521	\$ 75,379	(14.4%)
Dividends			
Amount	\$ 7,441	\$ 13,793	(46.1%)
Per Ordinary share (dollars)	\$.35	.65	(46.2%)
Return on capital employed	3.8%	(.7%)	—
Price range of stock (dollars)			
High	\$ 24.00	\$ 25.75	(6.8%)
Low	\$ 17.75	\$ 16.75	6.0%
At December 31			
Working capital	\$ 237,490	\$ 187,993	26.3%
Current ratio	2.0:1	1.9:1	5.3%
Long term debt	\$ 372,755	\$ 346,882	7.5%
Total assets	\$1,280,060	\$1,197,903	6.9%
Percentage of long term debt to total capital employed	36.2%	35.3%	2.5%
Book value of each Ordinary share (dollars)	\$ 23.46	\$ 22.74	3.2%
Price of stock (dollars)	\$ 23.38	\$ 17.88	29.3%
Number of Ordinary shareholders	16,759	16,654	.6%
Number of employees	23,601	23,206	1.7%

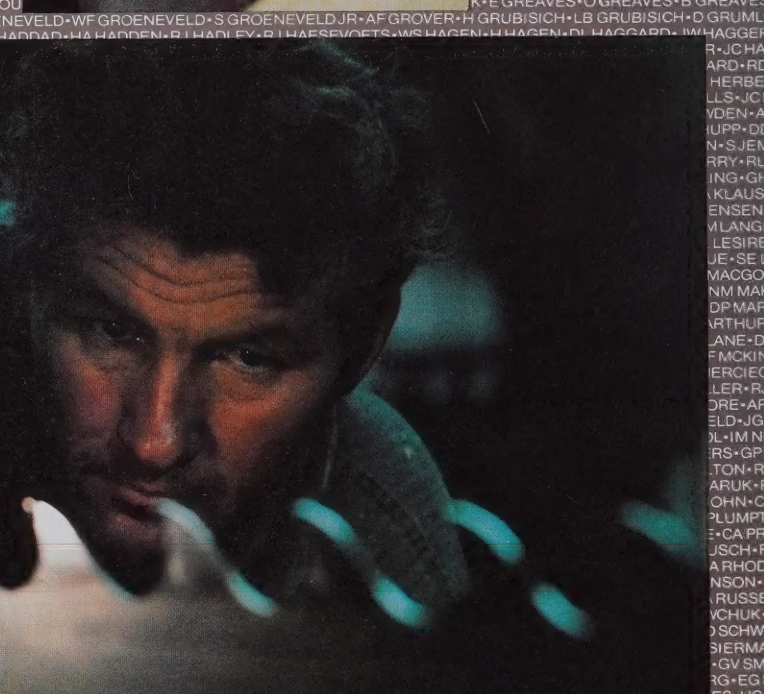
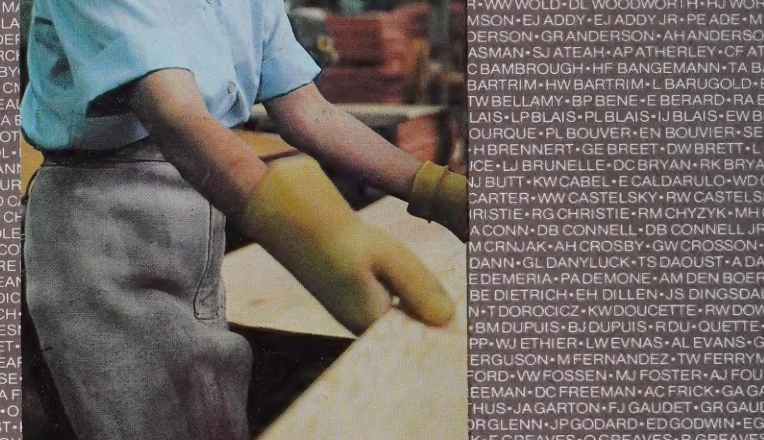
*Including property, plant and equipment of subsidiaries acquired during the year.

BILL MARTIN
Faller, Logging

WILLIAM BALLAN
Boomman, Sawmill

NORA BELL
Green Chain, Sawmill

SATTAR ABDUL - LE SAUNDERS - ED SAUNDEHS - W SAUNDERS - GU SAVI - SKT - SAUC
 Z - AD SEAMAN - AM SEARS - WE SEDGEWICK - KB SEMKO - P SERGEI - SHAH B ABDUL - W SHEARER - MJ
 LL - JL SMITH - LJ SMITH - CL SMITH - D SMITH - JI SMITH - RL SMITH - WF SMITH - MG SMITH - WJ SMITH - J
 UY - LA SPENCE - MJ STACE SMITH - JR STANHOPE - RB STANLEY - RP STATES - F STEINHAUER - HG STEI
 IRZAKER - BE STOLTH - ML STONE - MD ST
 D TASSIE - GA TAYLOR - DG TELFORD - RN
 LAKE - RT TODD - F TOGNO - LR TONEFF - H
 VALCOURT - RG VALLEE - T VAN BIERT - H
 R - P WAITE - CD WAITE - JT WALLINGTON - D
 MN WIEBE - D WILLIAMS - LJ WILLIAMS - DV
 SKY - RA ZBOYOVSKY - M ZIEGEMANN - SI
 RF BOND - PC BOOTH - E BORSJE - HA BI
 SS - FN CROWDER - FB DAVIDSON - EH DA
 AINE - WE FONTAINE - TH FORRESTER - E
 ATFIELD - W HIGH - GM HILLIARD - WN HIS
 ITZ - RJ LACASSE - M LAMONTAGNE - RJ LA
 JALD - DW MACKIE - WA MANCELL - K MAR
 MUNROE - RL NASWELL - TR NASWELL - W
 STROM - B REED - RJ RENNIE - D ROBERTS
 DDABY - GH THIBIDEAU - WR TOLLINGTO
 T ABBOTT - LA ADAMS - CM ALTWATER - JH
 V BAUER - DW BELL - N BIDIUK - BN BJAR
 CAMPBELL - SW CARMICHAEL - EJ CARR
 SEN - JE DAVIDSON - L DAVIDSON - BW DA
 IS - J EPP - MP FALK - B FALK - CR FARKAS
 SON - WR GIGNET - AR GRAHAM - RN GRE
 L - RW JAMES - CK HANCSIK - LV JANSSON
 JAMES - JY KRAWEC - JV KREIZ - HR LARS
 DONALD - GA MCDONALD - IC MCKAY - BR
 SON - S PEDERSON - LH PENDERGAST - A
 RIDGWAY - DM ROBERTS - LG ROBERTS -
 SEN - W STEEL - WF STEWART - RL STON
 WYANBERG - JW VANSTONE - EL VE



WALUK - KR SWANN - CH SWANSON - DN SWANSON - PH SWERHUN - GD TAIT - GJ TAKACS - ZPTALIAN - HL TAYLOR - A TAYLOR - T TAYLOR - DA TAYLOR - CB TAYLOR - WR TAYLOR - G TAYLOR - A TAYLOR - A TAYLOR - JY NKO - R THERIAULT - WD THIN - R THOMAS - RJ THOMAS - AH THOMPSON - TG THOMPSON - VL THOMPSON - LR TOMBS - BK TOMS - P TONER - S TOOMEY - TB TORGERSON - BJ TOURANGEAU - E TOWE - CS TOWERS - T TYERMAN - JP TYNE - AG UNDERDOWN - DW UNGER - GE UNRAU - MURSIC - BV UVILLA - E UZELMAN - DW J VAN KOOTEN - H VAN LENT - AC VAN SWIETEN - JV ANDER HORST - JV VANDERKLIFF - L UZELMAN - RAYSON - JM WALKER - JM WALKER JR - RE WALLMAN - EG WALLMAN - DH WALTER - HW WALTON - BN WANGSNESS - RM - F WATSON - MJ WATSON - RS WEAGLE - AC WEBB - R WEBER - R WEIKUM - BL WEIKUM - HL WELCH - CH LA WHIBLEY - RE WHITE - GR WHITE - WR WHITE - MK WHITMELL - H WHITTAKER - T WHYTE - VC WIEGE - RT WINDSOR - DC WINTLE - HG WISARTH - T WOLANSKI - D WOOD - H WOOD - DW WOODEY - J WOODS - SG WOY - ROER - KK YAN - G YOKANOVICH - TJ YORK - WM YOUNG - RG YOUNG - R ZARANTONELLO - JA ZARANTONELLO - S Z WODESKI - RA AVERIS - MM BARON - R BARTH - NA BASTIEN - S BENNETT - GE BENNETT - WG BOER - RD COLLY - H COOPER - G GORKUM - PJ COSGROVE - WE CUTHBERT - LA DAVIDSON - MD DENLEY - CJ DER J HALL - HW HAMMERSTEIN - R HAN - JG HARDING - DA HEARD - JM HENRIKSEN - MP HERWARD - RO HOE KLASSEN - K KURCHAK - BR LAFORTUNE - T LAMB - RN LAWRENCE - P LEE - J LILLEY - DK MACDONALD - S - ME MONAGHAN - AR MORINE - MM MORTON - JSNIMMO - WK NORTHOTT - MF NOSEK - G OLEARY - S O - OF RODGERS - JB ROSE - KE SANDERSON - GMSSELL MEYER - WK SINCLAIR - OPSKOV - LE SLANEFF - CN S - R - CJ THOMAS - DR THOMASSON - DW THOMPSON - BE TUNZELMANN - H VAN DER MARK - FR WOODSIN

Letter to the Shareholders

ROGER PRICE
Shift Supervisor,
Computer Operators

LORRAINE BYRNE
Veneer Patch
Machine Operator,
Plywood Plant

IVAN FATUR
Hook Tender, Logging

HENRY CHRETIEN
Saw Filer, Sawmill

The most important feature of 1976 was the successful effort of the Company's experienced group of professional managers to turn the Company around amidst rapidly changing conditions both within and outside the Company.

During the year the Company's former Chairman and former President were replaced by the present incumbents. Since then, the management organization structure has been reviewed and changed as described in more detail later in this letter. Now, with an infusion of new faces in the senior management group and a slimmed-down management structure, the Company is developing a fresh sense of direction and vitality and an even stronger management team dedicated to excellence.

1976 Results of Operations

In 1976 the Company earned \$1.07 per Ordinary share compared with a loss of \$.89 per share in 1975. Operating cash flow in 1976 was \$4.81 per share compared with \$2.92 in 1975. Certainly these results portray a move in the right direction. However, the Company's return on total capital employed* was a meager 3.8% and its

return on equity** only 4.6%. Substantial further improvement is needed.

Net earnings were \$22.8 million on revenues of \$1.5 billion in 1976, compared with a loss of \$18.9 million on revenues of \$1.3 billion in 1975.

Earnings for 1976 were adversely affected by a loss of \$14.5 million (after tax) in the Company's transportation activities, a loss of \$2.8 million from the decline of the U.S. dollar and pound sterling as reflected in our United States and United Kingdom working capital and, compared with 1975, a reduction in profits of \$5.5 million due to decreased Canadian dollar realizations from U.S. dollar sales. The combined impact of these three factors was a negative \$1.07 per share.

Markets for the Company's products were mixed during 1976. Demand and prices for lumber showed improvement, particularly in the United States and Japan, while the sluggish Canadian economy and growing U.S. imports slowed demand for the Company's panelboard products.

Newsprint demand fell off during the latter half of 1976 but total consumption in the U.S., our principal market, was up 5.1% from 1975. World pulp markets recovered from the serious recession of 1975, but world pulp inventories increased during the year, leading to production curtailments at the end of the year.

*Return on capital employed is defined as net earnings plus minority interests and long-term debt interest after tax as a percentage of total assets less current liabilities.
**Return on equity is defined as net earnings as a percentage of shareholders' equity.

Sales of Products and Services <small>Sales in Millions of Dollars</small>	1972	\$ 964	24%
	1973	1215	26
	1974	1396	15
	1975	1297	(7)
	1976	1520	17

Sales of Products by Markets		1976	1975	1974	1973	1972
	U.S.A.	44%	43%	39%	48%	50%
	Canada	24	24	21	21	21
	U.K. & Continental Europe	19	20	24	20	19
	Japan & Orient	7	7	8	6	5
	Other	6	6	8	5	5
		100%	100%	100%	100%	100%

Contribution to Sales by Products		1976	1975	1974	1973	1972
	Lumber	29%	25%	32%	38%	37%
	Panelboards	10	11	9	12	12
	Newsprint	23	22	22	19	20
	Pulp, Kraft Paper and Paperboard and Fine Paper	18	20	16	12	14
	Corrugated Containers	13	16	15	13	12
	Other	7	6	6	6	5
		100%	100%	100%	100%	100%

Linerboard and packaging operations were adversely affected by low prices and sluggish demand in the United States and Canada, resulting in production curtailments, while our packaging business in the United Kingdom remained strong.

Pulp and paper markets were depressed in France, the Low Countries and Spain, but our affiliate, KNP, nevertheless achieved better results than in 1975.

1977 Outlook

We are optimistic about the prospects for improved earnings in 1977. The outlook is enhanced by the fact that foreign exchange markets have begun to discount the Canadian dollar relative to the U.S. dollar. This is a significant factor for the Company since the majority of its costs are incurred in Canadian dollars and the majority of its products are sold for U.S. dollars.

Shipping losses should gradually diminish as the tonnage under charter is reduced. Markets for building materials continue to improve, especially in the United States and Japan, despite adverse weather in the first quarter in the United States.

However, the degree to which our expectations for improved earnings in 1977 are fulfilled will depend very heavily upon improved growth rates in the world's developed economies, upon the Company's ability to arrive at reasonable labour settlements without production shutdowns, and upon the cost burden imposed by government regulations, especially in the Company's logging operations in British Columbia.

Long-Term Prospects

In the longer term, the Company's growth prospects depend on all of those factors plus a substantially-increased investment in improved technology. This investment is required for the Company to reduce its costs of production and to increase the value extracted from the annual harvest of its forest resource.

The Company must increase its total corporate productivity to better that of its major world competitors. The importance of this cannot be over-emphasized. Almost 80% of the total sales are in the form of commodity products in world markets where the Company must meet the price competition of other large North

American producers having equal or better forest resources and lower costs. Therefore, improvement of the Company's profit margins depends on cost control rather than price adjustments.

To assure the Company's ability to compete and to grow and expand it must bring earnings up to levels which will enable it to continue to raise, at reasonable cost, the new capital it needs for future expansion and improvement of facilities and operations world-wide. This imperative has led to two basic decisions and the affirmation of a third.

First, the Company's capital investment program for 1977 and beyond is focused as heavily as possible upon modernization that will bring greater productivity and profit improvement.

Second, the Company is concentrating on the traditional areas of its business — logging and forest management, lumber and other wood products, pulp, paper and packaging products — where the skills and expertise of its people, as well as its world-wide market position, are the strongest.

Third, ocean shipping will continue to be a significant part of the Company's activities but there will be no departure from the plan set in 1975 to reduce long-term charters to a level capable of carrying half of the Company's production to overseas markets.

Recent Events

In January, 1977, the Directors reinstated the Company's regular quarterly dividend and declared a dividend of 10 cents per share which was paid on March 15, 1977, to holders of record on February 22, 1977.

In February, 1977, the Company announced a five-year \$590 million capital spending program heavily oriented to productivity and profit improvement in our existing operations. Approximately \$450 million will be allocated to our facilities and operations in British Columbia for modernization and productivity improvement, pollution control and capital maintenance.

The balance of \$140 million will be applied to similar purposes elsewhere in Canada, in the United States and in the United Kingdom, with emphasis on our Alabama linerboard, wood products and timberland operations.

The Company expects to finance the program by a combination of internal cash flow, external borrowings and the private placement of \$85 million U.S. of preferred shares with Canadian financial institutions. Amendments to the Company's Memorandum and Articles to enable the Company to issue the preferred shares and increase its authorized share capital will be presented to the shareholders for approval at the Annual Meeting in April.

In adopting this large capital spending program, heavily oriented to British Columbia facilities and operations, the Company is acting on the basis of clear indications that the business climate in the province will continue to improve and that rational policies will be followed regarding timber rights, logging guidelines, environmental restraints, labour relations, taxation and the like.

In March, 1977, the Company implemented a series of changes in the management organization structure to achieve these primary objectives:

First, streamline the organization to improve control, efficiency and communications.

Second, establish an effective system of integrated business planning.

Third, improve the utilization of the British Columbia resource base.

The Company's businesses are now operated — both production and sales — by four product groups: The Raw Materials Group under James H. Lawson, Group Vice-President; the Building Materials Group under John St. C. Ross, Group Vice-President; the Linerboard and Packaging Group under Harold V. Townsend, Group Vice-President; and the Pulp and Paper Group under Ray V. Smith, Group Vice-President. All report to Bruce I. Howe, Senior Vice-President, Operations.

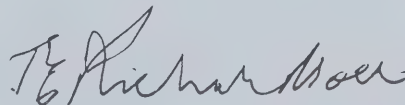
The following staff services also report to Mr. Howe: Transportation,

Engineering, Forestry.


International development projects remain under John O. Hemmingsen, Senior Vice-President, and the Company's interests in KNP, La Cellulose d'Aquitaine and Celupal continue to be supervised by Wilhelm Peppler, Chairman of MB Europe.

The principal corporate support functions are grouped as follows: Finance and Planning under Derek H. Parkinson, Senior Vice-President; Law and Corporate Affairs under David H. Fricker, Senior Vice-President; Human Resources under Gordon J. Towill, Vice-President; and Research and Development under Dr. Otto L. Forgacs, Vice-President.

This is the senior management team designated to manage the assets and business of the Company. We are convinced it is a strong team that will do well for the Company and its shareholders.



J. Ernest Richardson
Chairman of the Board



C. Calvert Knudsen
President and Chief Executive Officer

Vancouver, Canada
April 1, 1977

Distribution of Total Income		1976	1975
	Purchases of goods, supplies and services	60.0%	67.3%
	Wages, salaries and employee benefits	29.1	27.2
	Federal, provincial, state and municipal direct taxes	4.8	2.3
	Depreciation, depletion and amortization	4.5	4.7
	Minority interests in subsidiaries	.1	—
	Dividends	.5	1.0
	Earnings retained (deficiency)	1.0	(2.5)
		100.0%	100.0%

Note: Total income includes equity in earnings or losses of partly-owned companies.



DOROTHY KING

Report of the Directors

Forestry and Building

Materials

The Company's forestry, logging and building materials activities reported a loss on operations of \$3.0 million (pre-tax) in 1976, largely because pulp log prices remained depressed.

In 1975, when markets and prices were weak and production at B.C. mills was disrupted by a strike in pulp and paper operations, the operating loss on logging and building materials activities was \$28.9 million (pre-tax).

In 1976, demand and prices for lumber were improved over 1975 and output reached its highest level in three years. In British Columbia, 1976 was a year of labour peace and of unmatched favourable weather for logging, which permitted record log production.

MB has 20 logging divisions in British Columbia and 15 manufacturing operations producing lumber, lumber specialties, poles and panelboards and all were able to run without major interruption caused by labour-management disputes. In addition, neither winter snow nor summer fire hazard caused curtailments in log production.

Log output would have been greater had market conditions for MB's building materials products permitted manufacturing operations to run at higher levels. However, log inventories were so high near the end of the year that B.C. logging divisions had to be closed from December 4th until the beginning of 1977.

With some exceptions, demand and prices for our lumber products showed significant improvement during 1976. Markets in Canada and the U.S. showed early strength, slowed in the third quarter, then strengthened again. Offshore market demand in Japan and the United Kingdom picked up steadily through the year. Our sawmills in B.C. operated at about 75% of capacity.

Plywood markets declined after a fairly strong start and demand and prices both fell as the year progressed, reflecting weakness in the economy in

Canada where about 72% of MB's plywood is sold. Production at our B.C. plywood mills was curtailed in November and December to permit inventory adjustment and, for the year, these plants operated at about 82% of capacity.

Demand for waferboard strengthened in the latter part of the year. Our Hudson Bay, Saskatchewan, plant operated at about 81% of capacity and the mill at Thunder Bay, Ontario, which began producing ASPENITE* panels in 1975, operated at about 61% of capacity in 1976.

Demand is expected to remain reasonably strong for lumber and waferboard during 1977 but the outlook for plywood is less promising. Particleboard and panelboard specialty product sales, which showed some improvement in 1976 over the previous year, are expected to be slightly better again in 1977.

The Company continues to seek means to overcome cost increases which affect our ability to compete in world markets. New and innovative developments are being employed in harvesting and delivery of logs, among them the Haida Monarch which MB developed as the world's first self-propelled, self-dumping log barge. This ship, in its first full year of operation in 1976, performed well above expectations.

In manufacturing, more new technology is needed to raise productivity levels and improve the value of product recovered from each log harvested. In 1976, Woodroom No. 4 at Harmac began operation and proved to be a successful, high-speed, small-log sawmill.

*registered trademark

DOROTHY KING
Quality Control
Laboratory Technician,
Particleboard Mill

Sales of Building Materials Products** (In Millions of Dollars)

	1976		1975	
Lumber	\$420.3	65%	\$296.8	61%
Panelboards	151.5	23	128.6	26
Other	76.9	12	64.3	13
	\$648.7	100%	\$489.7	100%

**Figures do not include any amounts for raw materials and by-products, such as logs and wood chips, transferred to pulp and paper operations.

Some of our processing operations were upgraded, particularly in the resawing of cedar where the result was an end product of greater value than previous output. More such specialization, especially in hemlock lumber which faces a fiercely competitive market, will be sought.

During 1976, the Company completed a detailed long-range study of modernization requirements and began to put into place plans to update MB operations in B.C. Early in 1977, plans were announced for investment of about \$253 million in forestry, logging, lumber and plywood operations over the next five years.

The plans include replacement of one of the Company's older sawmills at Port Alberni and upgrading of its plywood mill there. They also include substantial improvements to plywood and sawmill operations in the Lower Mainland area of B.C. In logging, replacement of equipment, construction of additional dry-land sorting grounds, main road additions and other improvements will involve about \$174 million of the above total.

The Company's wholesale sales and distribution headquarters in the U.S. were moved to Atlanta, Ga., during the year and the cargo terminal and warehouse operations involved were brought under the MacMillan Bloedel Building Materials name. This move is providing more efficient administration and a stronger marketing program in the U.S. for building materials.

The Company produces lumber, plywood and particleboard at mills in Pine Hill and Opelika, Alabama,

and during 1976 began production at a new lumber specialty mill at Edenton, North Carolina.

Demand for Pine Hill's sheathing-grade plywood was at a generally high level in 1976 and this is expected to continue in 1977. This plywood mill operated at 97% of capacity for 1976.

The Alabama lumber operations produced at 46% of capacity, reflecting somewhat erratic demand. Some improvement is expected in 1977. The particleboard mill at Pine Hill had a difficult year and, while it broke into the higher-value industrial market, demand and prices were generally weak and output was at 64% of capacity.

The Company's fence and allied products business in the U.S. did not live up to expectations and steps were taken late in the year to sell the operations of Walpole Woodworkers, Inc., a New England manufacturer and retailer of cedar fencing and garden furniture.

The timber base upon which MB's manufacturing operations are based includes 3,876,000 productive acres of forest land on which the Company has long-term cutting rights and 805,000 productive acres owned by the Company. These holdings include 2,785,000 productive acres in British Columbia, 723,000 acres in New Brunswick, 371,000 acres in Alabama and 802,000 acres in Saskatchewan where cutting rights are limited to species used by the Hudson Bay waferboard plant.

In Ontario, the Company has rights to 1.7 million cubic feet of peelable veneer logs and 5.6 million cubic feet of

Production

		1976	1975	Per Cent Increase
Logs	(M.cu.ft.)	389,970	258,713	51%
Lumber	(MFBM)	1,180,325	766,542	54%
Panelboards	(M. sq.ft. 3/8")	838,138	670,493	25%

Sales of Building Material Products by Market

	1976	1975	1974	1973	1972
U.S.A.	37%	36%	31%	45%	52%
Canada	35	38	31	27	28
U.K. & Continental Europe	15	13	22	18	12
Japan & Orient	7	8	8	6	5
Other	6	5	8	4	3
	100%	100%	100%	100%	100%

poplar and birch pulpwood annually from Crown management units and timber licences held by others. These rights relate to MB's Nipigon plywood plant and Thunder Bay waferboard mill.

Employees in B.C. logging divisions achieved a significant advance in work safety during 1976, reducing the accident frequency rate by 51% to 24.80 per 1,000,000 man-hours worked, compared with 50.75 in 1975.

In forestry, the Company marked another milestone during the year when a crew on Vancouver Island planted the 100 millionth seedling in MB's reforestation program, which began in B.C. in 1938. The occasion was acknowledged in a ceremony in which Honorary Director W. J. VanDusen, a founding partner in the Company, planted a Douglas-fir in the VanDusen Botanical Display Garden in Vancouver.

The young fir is growing near MacMillan Bloedel Place, a unique forest information centre which the Company built and opened to the public on August 31, 1976 as a gift to the City of Vancouver and as a permanent exhibit to assist in encouraging public understanding of the forest resource.

During 1976, more than six million seedlings were planted as MB restocked 17,410 logged acres, bringing to 220,610 acres the total acreage replanted by the Company in 39 years. Research continued into methods of improving the early survival and growth of seedlings in keeping with our intensive scientific management of forest lands. At the same time, a special research staff consisting of silviculturists, a geneticist and scientists specializing in forest-related fields such as wildlife management, soil, climate and fish

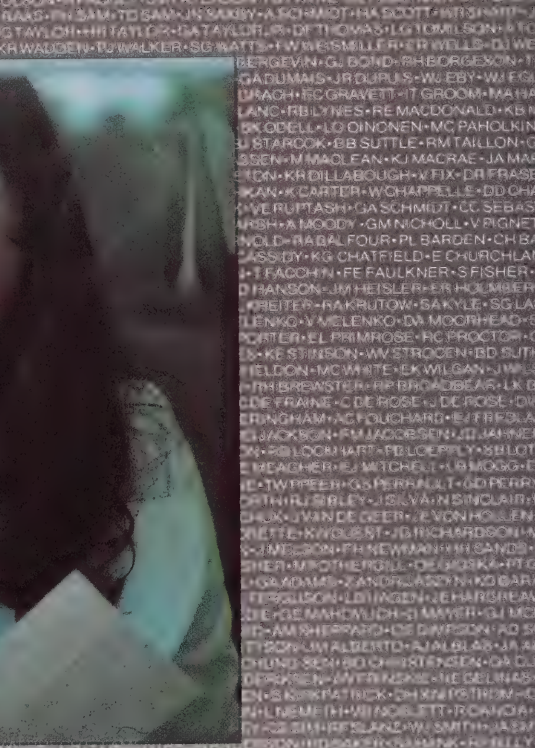
biology, continued studies aimed at improved environmental-protection planning.

The Government of British Columbia appointed a Royal Commission in mid-1975 to inquire into the forest resources of British Columbia. The report, released in November, 1976, contains many proposals relating to modification of the logging guidelines, changes in recovery standards, reduction of scaling charges and taxation rates on private lands, and changes in the terms and conditions of Tree Farm Licence agreements, among others.

A Forest Policy Advisory Committee has been appointed to study the report over the course of 1977 and to advise the Government on possible legislative changes in response to the recommendations in the report. Matters of some urgency which require no changes in legislation, such as relaxation of export controls and modification of the logging guidelines, are being implemented progressively.

No changes in legislation are expected before 1978 and the Government has offered assurance that existing rights will not be reduced if they are being fully and efficiently used.

The Advisory Committee has invited comments on the Commission's recommendations and the Company is preparing a full submission of its views.

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Pulp and Paper

MacMillan Bloedel's pulp and paper operations, bolstered by first-half market strengths and by the fact our British Columbia mills were free of work stoppages caused by labour-management differences, made a record contribution to the Company's earnings in 1976.

Markets declined in the second half and production curtailments were necessary at year-end to correct abnormally high inventories. Still, the Company's pulp and paper operations showed before-tax profits of \$135.0 million on total sales of \$606.2 million, compared with \$102.5 million on sales of \$530.5 million in 1975.

The Company produces newsprint at major mill complexes in Powell River and Port Alberni in B.C. and in Saint John, N.B.; bleached, semi-bleached and unbleached market pulp at plants in Nanaimo (Harmac), Port Alberni and Powell River; linerboard at Port Alberni and at Pine Hill, Alabama; and fine paper in a mill on Annacis Island in B.C.'s Lower Mainland area.

Sales from B.C. pulp and paper mills were strengthened early in 1976 at a time when a strike closed producers in Eastern Canada, including MacMillan Rothesay at Saint John. The latter was shut down from October 23rd, 1975 until February 23rd, 1976.

During most of the second half, however, unsold inventories were very high as market demand declined under the impact of a general softening of the economy, increased production from new sources and economy measures taken by our customers to stretch their use of newsprint.

Production curtailments became necessary and our year-end shutdown was extended by five days at major mills. Unbleached pulp production was cut back for short periods early in the year because of severely-depressed markets. Product prices were mainly static except on newsprint where an increase was made July 1st.

MB's newsprint facilities, including the MacMillan Rothesay plant, operated at 92% of capacity in 1976. Demand in offshore markets, while better than in 1975, was still weak, but in the United States — our most important market — demand was stimulated both by increased consumption and, for the first half of the year, by customers

replenishing inventories.

Consumption in the U.S., while up from 1975, was still below 1973 and 1974 levels, partly because publishers made format changes and took other steps to conserve newsprint. For 1977, demand for newsprint is expected to be reasonably good.

Markets for kraft pulp remained depressed in 1976 and, while better than in 1975 when results were affected by a strike in our mills, shipments remained below the peak established in 1974. Producer inventories were extremely high world-wide, a situation aggravated by government subsidy of inventories of Swedish producers to keep their mills operating in 1975 and 1976 despite depressed market conditions. No major improvement is anticipated for 1977.

MB's unbleached pulp production was curtailed for short periods during the first quarter and again in December, 1976, when high inventories company-wide forced an extended year-end shutdown of major mills. MB's kraft pulp facilities operated at 82% of capacity in 1976.

MB's linerboard operating rate in 1976 was 82% of capacity at Port Alberni and 95% at Pine Hill. In Western Canada, demand for Alberni linerboard was relatively firm throughout the year. Generally, however, linerboard demand was well short of production, particularly in the U.S. where most mills operated at full capacity in the first half, then had to curtail production late in the year. At MB's kraft linerboard mill at Pine Hill the normal Christmas shutdown was extended by two weeks to permit inventory adjustment. During this shutdown major maintenance originally scheduled for April, 1977, was carried out.

During the year about 73% of the Alberni mill's linerboard production was utilized by MB packaging plants in Canada and the United Kingdom while MB packaging facilities in the U.S. utilized about 57% of the Alabama mill's output.

Price levels for linerboard remained firm for most of the year in the U.S. but increases effected in the second quarter were rescinded later. In the United Kingdom, strong competition and the weakening of sterling in exchange markets resulted in producers reducing prices, which are set in terms of U.S.

SUSAN MILNE
Payroll Clerk, Pulp Mill

JOE THOMAS
Junior Recovery Engineer,
Pulp Mill

TONY ELIA
Clamp Truck Operator,
Bag Plant

JOE HARVELL
Backtender, Linerboard Plant

SVEND LASSEN
Lime Kiln Operator, Pulp Mill

Sales of Pulp & Paper Products*

(In Millions of Dollars)

	1976		1975	
Newsprint	\$329.1	54%	\$296.3	56%
Pulp	157.5	26	128.8	24
Kraft Paper & Paperboard	93.2	15	85.0	16
Fine Paper	21.0	4	17.3	3
Other	5.4	1	3.1	1
	\$606.2	100%	\$530.5	100%

*Before eliminating inter-Group transactions of \$21.0 million (1975 \$24.2 million)

Production**

(Metric tonnes)

	1976	1975	Per Cent Increase
Newsprint	1,064,722	870,959	22%
Pulp	439,688	322,138	36%
Kraft Paper & Paperboard	407,355	339,000	20%
Fine Paper	29,672	24,557	21%

**Includes production utilized by other Groups

Sales of Pulp & Paper Products by Market

	1976	1975	1974	1973	1972
U.S.A.	51%	49%	46%	55%	51%
Canada	12	10	10	9	9
U.K. & Continental Europe	20	21	22	18	20
Japan & Orient	9	9	11	8	9
Other	8	11	11	10	11
	100%	100%	100%	100%	100%

dollars, by about 10% on October 25, 1976.

MacMillan Bloedel has developed a broad market base in its pulp and paper business and this has contributed considerably to the Company's success. In the longer term, our progress requires that we be cost and price competitive and we are making advances in this regard through modernization programs to improve productivity and earnings.

During 1976, an \$18 million modernization program at Powell River was completed. New central maintenance facilities are in operation along with computer control in the kraft mill and recovery boilers. A 34-megawatt hydro-electric generator which helps make the mill about 75% self-sufficient in electric power began producing in July — at about the same time that prices for commercial power were increased by approximately 78%.

Powell River's No. 3 and No. 4 newsprint machines were retired during 1976 after more than 50 years of operation. Capacity is being substantially recovered through increased output from other machines. Thermo-mechanical pulping, introduced at the

mill in 1975, continues to perform up to expectations. This new technology involves refining of wood chips after steaming them at high temperatures. The resulting pulp is used in newsprint manufacture and reduces significantly the amount of chemical kraft pulp required for this purpose. The Powell River mill's thermo-mechanical capacity is 42,000 tonnes annually.

A 91,000-tonnes-a-year thermo-mechanical pulp mill began operation during 1976 at the Saint John newsprint plant of MacMillan Rothesay and achieved expected results in reducing requirements for more costly purchased kraft pulp. MacMillan Rothesay also increased its timber resource by acquisition of 53,000 acres of woodlands under timber lease from the New Brunswick government, bringing total holdings to 577,000 acres under lease and 146,000 acres owned outright.

At Port Alberni, where construction of a \$22 million power boiler began in 1975, work continues toward a 1978 completion date. This computerized facility will reduce air emissions, burn excess hog fuel and reduce the Company's reliance on oil for power generation there.

TERRY DUCHEN
Recovery Boiler Assistant,
Pulp Mill

BEATTY-JAMES BENNETT-MARY ELLEN BISHAW-JAMES BURDICK-ROBERT CLARK-WILEY COLLEY-HOWARD COURTNEY-REINHARD DIES-DOUGLAS ELLIAS-BRECKEN FLETCHER-ROBERT
WILLIE GRAHAM-JAMES HICKS-A JONES-H CORNS-W BURNS-T WATERS-J WATT-M M PHEE-J TENNANT-A W HFIELD-D M ANDREWS-H BLAIR-P TAYLOR-B JOHNSON-R MCG LAREN-H DOUGLASS
C MCDONALD-M FINNEY-S HANVEY-J MCOMB-JEAN HILL-BENJAMIN HILL-DUGENE HORTON-PAUL HOWARD-ROBERT HOWE-DONALD JEFFERY-MARVIN JONES-WILLIAM JONES-WILLIAM KILLY
JAM KIRNER-PHILIP KUBINSKI-JAMES LAZENBY-WILLIAM LEDERMAN-KENNETH LEWIS-J MAXWELL-I SHARP-NNESS-M SCULTE-R A MCARTHUR-J STIRLIN-SHILLER-D CLARK-T ROBERTSON-OYO
JONDY-KENNETH MARVIN-ROBERT MARVIN-ROBERT MCKLEVIS-JOHN MIZERAK-WILBUR MORGAN-ELWYN NEPHEW-ROBERT O'BRYEN-THOMAS OSGORNE-MICHAEL OSTASZ-LIZON OSTRANDER
ANDER-PDASH-WEL-L M BAI ES-K BARBER-DBEYNON-J BIRD-B BREWER-J CHEE-FINS-C CLARK-M COLGAN-P CRUMMEY-T DAVIS-LW DAWSON-J DUNSTAN-A EST GATE-G FEARY-J FENTON-JOL
ALL-ASHARWOOD-GU-H VLETT-K HOWE-D JAMES-PF JOHNSON-E JOHNSON-CKITE-THOMAS POLIDORI-LAWRENCE PONZI-DONALD POSS-CARMEN RUTZKE-JOHN SAMPAN-MICHAEL SAWYER
SMITH-RAYMOND SMITH-THEODORE SOO HACK-LEO STAPLETON-JOHN STRAUSS-ALBERT SYKORA-MILLIAM TAYLOR-JACK TICE-JAMES VAN HORN-JAMES VAN SKIVERI-MAX WIDMANN-MARY WAG
ROBERT WILLIAMSON-EDWARD WOODRUFF-TERRY WOUCHER-DELPHE ZIEGLER-ANN ZITO-TIC LEACH-SF LEARNER-MILEE-J MOENZIE-B MATTHEWS-A MCKLEVERI-H B MOY-G J KENTH
OBLE-COPPER-T PALMER-J PAYNE-AE PITNEY-J POPPY-N SHAW-QJ SILCOX-T SIMONS-A STARJIE-JA SWIFT-R TAYLOR-L THOMAS-R TOLMIE-MA TURNER-BB WATSON-C WILLIAMS-DAAS GARZA
USS-HUMBERTO GUERRA-ADRIAN HAMPTON-BEVERLY MURRELL-CALVIN SAGS-JORGE PICO-LEE ROY-JACKSON-JUAN GARCIA-JOSEPHANT NEZ-GARY HENSLEY-CHARLES LONON-WILLIE FORTER
ZVARA-ROEL GUERRA-BARBARA LANGSTON-ROSE BAILEY-HECTOR GUERRA-DE GORTON-RUA HUDSON-MAK ACKLAND-NP BADMAN-MJ STARKS-GJ THORNE-OG THOMAS-B BISHOP-P PETERS
CHES-PP GRAY-SG TAYLOR-TA SPARLING-AJ POWELL-MP GEORGE-FM HARDING-C SOKOL-SF BURLAND-PH COUNSELL-JESUS GUERRA-SHIRLEY HAMPTON-VERNON HUBLETT-EDIE SULLIVAN
DO GARAN-SELMA SMOTHERS-CAIN DAVIS-JOHNNY THOMAS-LUCY BYRD-JOSEPH HARRIS-ALICE WALSON-EMIL MCGATHON-FRANK HART-STEVEN BLISS-MARIE SALINAS-LESTER DEASOR-HAK
DE FLORES-TOMAS FORD-BERGIO GARCIA-MICHAEL MILLER-AMELIA MACKIE-JIMMY SOTO-HAROLD MITCHELL-BENNE GREPARES-TO FRYER-MG RICEOLL-NH COWLIN-ADOLLETT-A THOMAS
JAYLOR-DR COLLINS-DC ACKLAND-DT WHITE-AR WAGNER-P LOVELL-PA HOWARD-DJ MAGOR-M RICHARDS-T KARR-J SMITH-SB BATEMAN-KL SMITH-R SCHOFER-LEPH BREWER-MA BRUFFORD
BENNE JONES-MARY ANN SOTO-HOMEROGARZA-JIMMIE LAMPE-RANDY READ-CHARLES CARROLL-YOLANDA RODRIGUEZ-RONALD SANFORD-RANDALL COLLINGS-TCM BARWICK-WILLIAM
QUILPERMO SALINAS-JOHN CASTILLO-TOMMY BENNETT-LORETTA KOSIK-JOHN HENDERSON-ARTURO PLAZA-JUAN OLIVAREZ-HOWARD JIUTUN-DEBBIE BURRICH-GEORGE HOLME-SUOHN
PEDRO LOPEZ-GUY
EDIE B
ROBERT
TPEAR
ILONG
ROBE
BBS-AJ
C'S B
H FLO
W RAL
BARER
IRAK
BRES
XSTER
TON-T
ERDET
WILTON
JE MAR
ON-HU
JORN H
JARN
B BARR
OTOLM
MORE
SMITH
H MURK
T MART
ON-JUN
JURY C
S-SO FO
SMITH
ES-M
JETT
MILL
B MC
NHR
INSON
ONSV
JAMM
JHAG
SCH
DE GA
ORTH
A HA
N-RU
ID-H
S-MA
PC III
RANK
FR-HI
EY-JI
HIRE
S BEI
HITE
S-DM
ADY-C
BRES
M BRE
JWJ
ISON
NES-V
JGB
JNE K
JOEN
OUFFI
WACH
JIN-W
WNC
LH-CC
LLIPS
AMS-
BICK
N RA
BINS
JET
WELL
STAB
NICH
STHR
Y-RR
MRO
JALDV
T-STF
ALLA
SIMP
ATH-
L-LA
JERS
LALAH
PELAN
DUNC
-RU K
ALLIE
JELI
LFER
WART-I
HHNNI
R LOC
TERRY
RGAN-
SON PI
ROBE
SCB



BOBBY WALKER-THOMAS WALKER-JAMES WELCH-JIMMIE WILLY-ME LYN WHITE-STEVEN WIDZAR-MEROW WINTON-HAROLD WILKINSON-ALFONSA WILLIAMS-CHARLES WILLIAMS-EDDIE
JOHN WILLIAMS-HENRY WILLIAMS-RE WILLIAMS-SR WILLIAMS-RE WILLIAMSON-DULAN WILSON-FLUX WALSON-FRED WILSON-PARCHON-WR BURGESS-DEWASH-ETGANDER-OGILBERT-HA
UNTER-SILAS WILLIAMS-A GOODIER-DM MCDONALD-J OLDFIELD-J COLLINS-L-CA HOBMAN-FU SLATER-M SHARIT-HW STARKIE-W WITCHAMORCE GIBKETT-WF DAVIES-T CAMPY-AJ HOWARD
RTH-KA SHAW-WIMP NAGHAN-N HARRISON-S WOODHUN-LEE BIRRI-WATSON-CKITTER-LUF-BETAN-J WADDINGTON-R HUDSON-HOURLD DINMAN-POPE-WHARRIS-AL RICHARDS
SCB

Packaging

Sales from MacMillan Bloedel's 27 packaging plants reached an all-time high in 1976. The contribution to total company earnings was \$8.4 million before income taxes.

The results were achieved in the face of intense competitive activity and less-than-buoyant economic conditions in Canada, the United States and the United Kingdom where we make and market our packaging products. Unfavourable currency exchange rates in the U.S. and the U.K. also had adverse effects.

Total sales, at \$210.8 million, were 2.8% higher than in 1975 while volume increased by 8.2%. The Company's packaging plants consumed 439,500 metric tonnes of linerboard and corrugated medium during the year.

The Company operates seven packaging plants in Canada, five making corrugated shipping containers, one producing bags and one making folding and rigid cartons. In the U.S. we have 12 corrugated container plants. There are eight plants in the United Kingdom, five in England which produce corrugated board and containers and two in Scotland producing containers from corrugated board supplied by our West Auckland plant. The eighth operation makes plastic products in England.

In terms of pounds sterling, the United Kingdom division's sales increased in value from 1975, partly due to price increases. The division's contribution to Company earnings was relatively constant before an increased foreign exchange loss of approximately \$1 million arising on the translation of the net current assets of these U.K. operations and included in unallocated general and administrative expenses (as shown on Page 28).

The Canadian division's

contribution to earnings showed a slight increase over 1975 but that of the U.S. division declined despite higher sales. Substantially lower prices, higher material and labour costs, the unfavourable relationship between the U.S. and Canadian dollars, and a strike at the Centerville, Ohio plant which began in 1975 and ended April 6, 1976, adversely affected profits there.

Net additions to property, plant and equipment in packaging totalled \$1.9 million for 1976, compared with \$2.3 million in 1975, and emphasis again was placed upon investment to improve plant efficiency and profits. Included in new equipment were two machines installed at the folding carton plant in British Columbia to produce milk cartons in metric sizes in line with Canada's continued move into use of metric measure.

Sales growth in packaging is helped by innovation in product development. MB added to its record in this regard during 1976, making a significant advance in long-distance shipping of fresh beef in special corrugated containers.

JUDY JAHNER
Finishing, Folding Carton

BILL JASPER
Product Development
Supervisor,
Corrugated Packaging

AL STEVENSON
Assistant Pressman,
Folding Carton

JEWELL BUTLER
Parts Department,
Corrugated Packaging

Sales of Packaging Products*

(In Millions of Dollars)

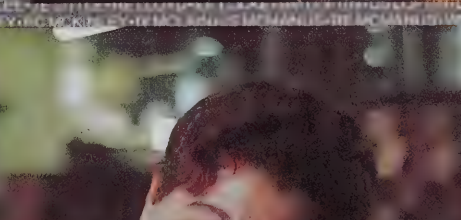
	1976		1975	
Corrugated Containers	\$192.9	92%	\$186.5	91%
Other	17.9	8	18.6	9
	\$210.8	100%	\$205.1	100%

*Before eliminating inter-Group transactions of \$2 million (1975 \$3 million)

Production

	1976	1975	Per Cent Increase (Decrease)
Corrugated Containers (Million sq. ft.)	8,267,978	7,636,764	8%
Other Products (metric tonnes)	20,303	20,458	(1%)

FRANK KELLY, JOSEPH J. COLLIER, J. WEALE, THURGOOD
IRVING GAINES, DON MACKIE, WAYNE JONES, LARRY GRIS-
WOLD, SUBLETT, AARON TRANTHAM, J.C. WALLER, JR. TUNSTON,
ANLEY KIEPURA, LARRY CARRISON, LEON THOMAS, PG RO-
NARLES HAMPTON, G. HESTER, PETER HARRIS, EMMASTEY,
HENRY THOMAS, JERROD, A. MCCLENDON, MARY WATERS,
GODELL, H. WATSON, D. THOMPSON, SALFORD, KATHLEEN M.
J. RUTACE, F. J. SHAPLAND, E. CASE, D. HILTON, J. DEAR-
LY, W. LAUDER, P. FLATT, P. DUERDEN, W. J. CRONIN, R. J. PRES-
TASHAW, CHARLIE GLASS, GEORGE KOHL, BOBBY BRYANT, J.
MATHEW, G. DEMPSEY, FLORA SHATZER, JOYCE HARTWIG,
LILLY, A. STEAD, F. YATES, A. LOVELL, C. BANNISTER, M. AANDER-
SON, P. CROOKS, K. MULDERIG, A. WILSON, C. DRIGBY, K. HARR-
STER, HAZELSPY, KENNETH MOORE, JOE GILKEY, LABINE ST-
MITCHELL, HENRY WHITEMIRE, RAY STANGE, CHARLES S.
KENNEDY, M. KHAN, VM. HIGGINSBOTTOM, F. BENJAMIN, A. CLY-
DE, BRABER, BENNIE JOHNSON, EMMA JOHNSON, ESTORY JOH-
NSON, WILLIE JOHNSON, ZADIE JOHNSON, ARTHUR JOH-
NSON, RACHAEL, OMRAI, A. ARA, ANECKI, TA. P. ANECKI, L. BER-



S-MOOTH • P-O S-OOTH • G-MULDER • G-WA-Z • L-THERNO • D-GREEN • H-SOM • C-E MARTIN • N-E COOPER • C-R WESTERMAN • E-STILL • L-ETC • A-R HUNTER • J-U • O-RIELLY • P-ASH-WORTH • M-STIBERS • L-BRAGG • S-DJ COOPER • D-CAYHILL • R-GARNETT • B-SHIELS • R-J PRANGE • WART • E-MOORE • K-J MOORE • R-L OSBORNE • EVANS DAVIS • VIOL • R-D HARLIN • FAYE CHANCE • GARY ALEXANDER • HAYWOOD • H-C MILLAN • MA MEYER • LEONARD • O'NEAL • JERRY WOODLEY • T-E HOLLINSON • C-T • ALBONES • D-METCALFE • BAROGERSON • B-LAND • IS GRIFFITHS • ST ROGERS • J BALDERSTONE • C-G FISHER • JAMES WOOD • ARMIE HUNT • GARY SITTON • WILLIAM HUNT • JO • K • FLORA MANSON • FERN LOFTIN • BESSIE MYERS • FLORINE B • SON • L THURSBY • M VARLEY • E FARNE • LL • PA FORREST • J ALTO • S • A BREWER • THOMAS NEWMAN • WESLEY JONES • DONALD J • PEPHENS • JAMES DUFF • BEN DAVIS • EUGENE BRANNNON • J • RHIFLETT • HAROLD HOLT • GUY HENSLEY • KS HAYRE • H ANDER • OUGH • M SINGH • P-O CONNOR • E MCCARTHY • F MURRY • J LAM • INSON • FAMOUS JOHNSON • GEORGE JOHNSON • GRACE JOHN • NES • BOBBY JONES • CHESTER JONES • CURLEE JONES • OLIVE • DO • ABILES • K-VI BORGARD • A CODERRE • R CUMMINGS • C •



Transportation

MacMillan Bloedel's transportation activities provide ocean transport for the Company's production operations, agency mills and other shippers. They also arrange truck and rail transport for MB product shipment.

In the wake of the 1975 collapse of the dry cargo shipping business the world market remained depressed in 1976. The increase of ocean shipping capacity, combined with the reduction in world-wide volume of general cargoes, held freight rates at low levels throughout the year. Thus, as was expected, ocean shipping continued to show losses.

These losses before income tax recoveries totalled \$22.8 million in 1976, a reduction of 51% from the \$46.3 million in the previous year.

The Company continued to have a carrying capacity in excess of requirements to transport its own forest products to market. Losses were incurred in all categories of activity. Several vessels were sub-chartered for periods exceeding a single voyage and, although these resulted in substantial losses, they were less than would have resulted if MB had continued employing these sublet vessels for its own account.

Costs in areas where the Company could exercise control were reduced during 1976.

The tonnage under charter to MB decreased significantly during 1976, principally as a result of redelivering vessels upon the expiration of the charter terms. The Company also took advantage, where possible, of opportunities for early re-delivery to owners. This is in line with the Company's policy of reducing the size of the fleet as quickly as possible to levels consistent with those required to transport the Company's products.

By the end of 1979, present commitments will have expired except for approximately 200,000 dead weight tons representing four new vessels of approximately 50,000 dwt each. These vessels have been specially designed for

the transport of forest products. Two of them began service in 1976 with the other two coming into service during 1977. While preliminary productivity evaluations indicate these vessels will exceed expectations in providing fast, efficient transport for MB products, their contract rates of charter hire exceed current market rates of charter hire.

The following table shows the year of expiry for charters having an original term in excess of one year for medium-sized (15,000 to 50,000 dwt) dry bulk carriers delivered to MB at December 31, 1976:

Year of Expiry	Dead Weight Tons	Number of Vessels
1977	392,622	13
1978	226,708	6
1979	206,721	7
1980-83	—	—
1984	98,959	2
	925,010	28

The two charters expiring in 1984 are the first of the four new vessels mentioned above. The other two due to be delivered in 1977 are also chartered for an eight-year term.

At December 31, 1976, MB owned a medium-sized dry bulk carrier of 22,920 dwt originally acquired under a joint venture which was terminated during the year. At that date the Company also owned two small dry cargo vessels aggregating 6,700 dwt and had under charter four other small dry cargo vessels aggregating 22,685 dwt. MB has agreed to sell the two owned vessels in 1977 and to charter them back for a term of two years. The latest redelivery under the charters related to these six vessels is September, 1979.

In the following table is shown the tonnage of freight carried and the gross sub-charter revenues generated by the fleet of medium-sized dry bulk carriers and the fleet of small dry cargo vessels in each of the years 1972 through 1976:

	1976	1975	1974	1973	1972
	(millions of long tons)				
Forest products shipped on behalf of MacMillan Bloedel	1.6	1.2	2.0	1.8	2.0
Other cargoes	1.8	2.8	2.7	1.4	0.4
Total freight carried	3.4	4.0	4.7	3.2	2.4
Sub-charter revenues (millions of dollars)	\$34.6	\$49.9	\$43.9	\$2.7	\$0.4

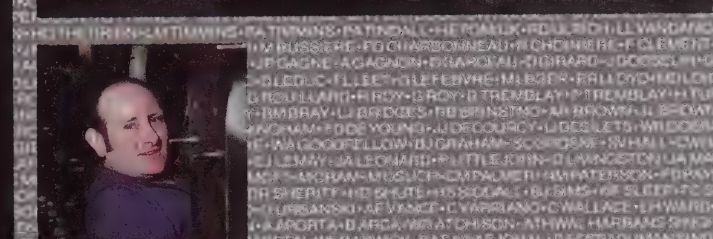
JUERGEN OSWALD
Engine Room, Deepsea Ship

NILS FREDRICKSEN
Deckhand, Deepsea Tugboat

HANK SKETTY,
Boat Operator
HAL NEWMAN,
Flight Engineer
GARY BORGFORD,
Captain

PAUL VERREAULT,
First Officer
RON KROMREY,
Flight Mechanic
MARS WATER BOMBER,
Forest Fire Protection

SOTELD BARROSO
Crewman, Deepsea Ship

[illegible]

Human Resources

MacMillan Bloedel employs more than 16,000 people in British Columbia and about 7,500 in other parts of Canada, the United States, the United Kingdom and elsewhere in the world. During 1976, wages, salaries and benefits for employees amounted to \$443.0 million, which represents 29.1% of total income.

About 18,000 MB employees are covered by approximately 60 collective agreements. Eighteen contracts covering 2,200 employees in Canada and the U.S. expired during 1976. Twenty agreements covering about 13,500 employees in the U.S. and Canada come up for renewal in 1977.

The latter include several major contracts, negotiated in 1975 for two-year periods ending in June 1977, which cover about 12,000 employees of MB's logging and manufacturing operations in British Columbia where 1976 was free of major work stoppages and where there was a significant reduction from previous years in minor work stoppages.

During 1976, negotiations in the U.S. were conducted in a relatively stable labour atmosphere and contracts negotiated were for periods of three years. These included agreements with unions representing employees in the woodlands, linerboard and wood products mills, except particleboard, at the Company's operations in Alabama. The particleboard agreement expires in November, 1977.

In Canada, the Company is subject to the federal government's wage and price control program and some settlements in 1976 were delayed pending approval by the Anti-Inflation Board. The Company established controls internally to assure regulations are met and devoted considerable time and energy to the required filings of compliance reports for various groups of salaried and hourly employees and to assuring compliance with Anti-Inflation Board decisions.

By the end of 1976, non-contributory pension plans were available to more than 90% of MB's employees in Canada and the United States. A major development during the year was the implementation of the negotiated B.C. Pulp and Paper Industry Pension Plan covering 4,700 hourly paid employees at MB's pulp and paper and converting mills in B.C.

Employee response to the share-purchase plan available to all Canadian employees since 1973 continued to be favourable with 2,500 employees currently enrolled in the plan having purchased about 250,000 Ordinary shares of MacMillan Bloedel. These shares are purchased on the open market by the Trustee of the plan. The majority of these shares are held by the Trustee.

The year saw 388 employees inducted into the 25-Year Club, bringing total membership to 4,746, of whom 2,140 members remain in active service with the Company.

DICK WALDA
Baker, Cookhouse, Logging

ROGER MILLS
General Foreman,
Particleboard Mill

WESLEY WEATHERLY
Boiler Operator,
Particleboard Mill

DALE VANDER SLUIS
Warehouseman,
Building Materials Sales

HENRY HOFFMAN
Headrig Sawyer, Sawmill

JOE NICOLO
Warehouse Shipper,
Building Materials

[illegible]

MacMillan Bloedel Research is Western Canada's major industrial research organization devoted to the forest products industry. During 1976, it continued to work with the Company's production operations to improve the efficiency of MB's manufacturing processes and assure the fullest possible utilization of the forest resource.

A major goal of the corporate research and development section at present is to optimize the results from the thermo-mechanical pulping process now in operation at the Powell River and Saint John newsprint mills. Particular attention is being paid to assuring excellent print quality of the newsprint papers containing thermo-mechanical pulps.

Nearly one-third of the research department's efforts in 1976 was directed to programs aimed at reducing the environmental impact of the Company's operations. The work included continuation of development of new and modified bleaching processes for pulp operations with emphasis on in-plant process changes rather than design of large external treatment facilities.

Assistance also was given to the production operations in reducing their need to purchase fossil fuels.

A corrosion and materials research team was established by MB Research in an effort to help reduce corrosion costs which, in the pulp and paper industry as a whole, run to many millions of dollars annually. This team has tackled a wide range of corrosion and materials failure problems and has been able to make positive recommendations for use of materials to minimize future corrosion costs.

Several advances were made during 1976 in the Company's continuing program of environmental protection and improvement. Capital projects in this program required expenditures of about \$8 million during the year.

In pulp and paper, digester odour control systems were completed at the Harmac and Powell River mills as were pilot-plant studies at Alberni, Harmac and Powell River to establish design criteria for strong black liquor oxidation. Construction continued on the \$15 million effluent treatment facility at Powell River and on Alberni's major new power boiler, the latter designed to meet the most stringent emission control requirements.

Experiments were carried out at Alberni with a new pulp bleaching method developed by MacMillan Bloedel Research as a means of reducing effluent colour and toxicity and the investigation of this method will continue in 1977. Effluent discharge at Powell River's mill also is being studied to determine alternative means of control of colour, toxicity and foam. At Harmac, an improved spill-control system was implemented and this reduced effluent solids losses.

At Saint John, MacMillan Rothesay, working with the federal government's Co-operative Pollution Abatement Research Program, undertook a comprehensive study of effluent control from the new thermo-mechanical pulping operation.

In our Forestry and Building Materials operations, progress was made in effluent abatement projects at several mills and detailed studies were started at Canadian White Pine and Port Alberni sawmill divisions to find alternative methods for reducing particulate discharges in power-boiler emissions.

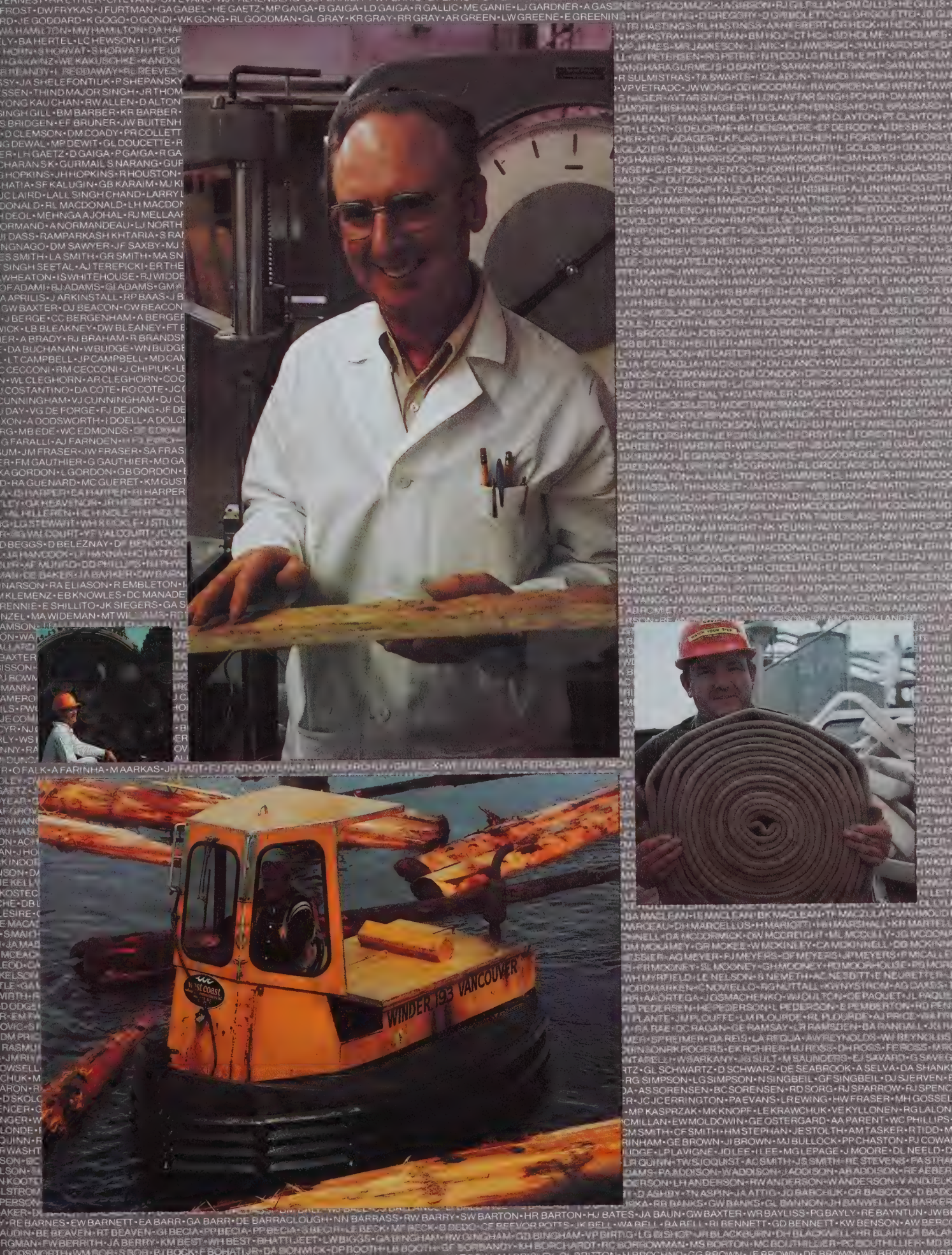
The Company's oil-spill protection program scheduled for completion by the end of 1977 now is about 75% complete. This began in 1973-74 to improve storage and handling facilities at all operations and to provide waste oil collection and recycling systems in our woods divisions. Its success is illustrated by the fact Environment Canada has proposed that our Oil Containment Manual be adopted as the manual of practice by the whole forest industry in B.C.

ALFRED BOURASSA
Senior Research Technician,
Research Laboratory

JOHN E. MCNABB
Attendant, Wood Preserving

LEN HOVIND
Winder Operator,
Booming Ground

W. H. PHILLIPS
Fire Safety Inspector,
Linerboard and Wood
Products Centre



Investments

The hesitant recovery in the European economy in 1976 caused the pulp and paper market there to remain relatively soft during the year. This affected the European companies in which MacMillan Bloedel has major investments.

Some improvement was achieved, however, by Koninklijke Nederlandse Papierfabrieken N.V. (KNP), the Dutch fine paper and packaging materials manufacturer in which MacMillan Bloedel holds a 43.8% interest.

The soft market forced some European paper companies to take down time. KNP's uncoated paper and board machines also were affected but, in coated grades of fine paper, production volumes increased and prices stayed more or less at late-1975 levels. Competitive price-cutting continued to affect other grades.

In Spain, Celupal S.A., which is owned 37.5% by KNP and 37.5% by MB, faced economic uncertainties and a poor paper market. Several price increases occurred over the year and orders were maintained but profits were below 1975 levels.

MB also owns 40% of the shares of La Cellulose d'Aquitaine S.A., a major European pulp producer with three mills in France and one in Belgium. This company increased its sales volumes in 1976 but overall results were below 1975 levels because of unfavourable prices resulting from excess inventories in the world pulp market. Poor performance and liquidity problems of papermakers in France caused them to carry minimal levels of inventory in 1976. This had a negative effect upon La Cellulose d'Aquitaine's sales. Several mill shutdowns were taken during the year to reduce inventory. The average number of production days per mill for the year was 290.

The French pulp and paper industry has undergone a difficult period during the last year, as has been the case in other European countries. Market conditions have improved slightly but profitability levels remain unacceptably low.

As a result of the problems facing the industry, financial institutions,

as well as agencies of the French government, are seeking ways to upgrade the industry, possibly by way of some type of restructuring plan affecting major ailing companies.

Since no specific proposals have been announced as yet it is impossible at this time to anticipate what role, if any, La Cellulose d'Aquitaine would play in such a restructuring.

In the Far East, MacMillan Bloedel has interests in several logging concessions and manufacturing operations through a 51% holding in MacMillan Jardine Limited. These activities showed strong improvement over 1975 and, while they did not all reach desired levels, indications are they will show further improvement in 1977.

The Far East interests include two forest concessions in Malaysia together with mills making plywood veneer, blockboard, decking and lumber, and a sawmill under construction. They also include a logging concession in Indonesia.

In Brazil, a large afforestation program, expected to extend through 1985, continued through Embrasca-Empreendimentos Florestais e Agricolas Ltda., a company in which MB has a 51% interest. Planting operations, hampered in 1975 by bad weather, reached acceptable levels in 1976 and land acquisition proceeded satisfactorily. The forests being developed in the southern part of Brazil through this program are expected eventually to provide the base for an integrated forest products complex which will rely heavily on local participation.

MacMillan Bloedel reduced its interests in small, developing businesses not directly related to our principal activities, achieving several sales of holdings in the companies involved during 1976. No further investments in such enterprises are planned for the foreseeable future.

JACK ELFORD
Marketing
Fencing and Lumber Specialties

MARY MONTELLIER
Cleaning Staff,
Administration Office

LOUIS SALEMY
Sales Manager,
Building Materials



Financial Overview

An important objective in 1976 was to improve MacMillan Bloedel's financial strength and balance following the bleak year of 1975. To this end, tight controls were maintained over capital and other expenditures, prudent dividend policies were continued and advantage was taken of favourable conditions in financial markets to institute and arrange improvements in MacMillan Bloedel's long-term capital structure.

Net additions to property, plant and equipment in 1976 aggregated \$64.5 million. The need for every expenditure was carefully examined and almost all fell into one of the following areas: logging road construction or logging equipment; anti-pollution projects; maintenance of plant; energy efficiency projects; cost-reduction programs.

Working capital demands increased during 1976 as a result of inflationary increases in costs of production and high year-end inventory positions. The accounts receivable and inventories portion of working capital totalled \$446.5 million at December 31, 1976, an increase of \$78.9 million over 1975 year-end.

As 1976 began, \$50 million of long-term debt (Series B) which fell due for repayment on January 3, 1976, was renegotiated for eight-year term Series H debentures carrying a floating interest rate related to the prime rate charged by a major Canadian chartered bank.

In May, the Company entered into a U.S. \$40 million seven-year Eurodollar debenture issue (Series I) at a floating rate of interest equal to $1\frac{3}{4}\%$ above the London interbank offering rate. The issue was privately placed with a consortium of two U.S. and two Canadian banks. The proceeds of the issue were applied to reduce short-term borrowings.

Towards the end of 1976, the world's financial markets became very liquid, primarily as a result of lower-than-expected capital expansion programs in the United States and Canada. Advantage has been taken of these market conditions in the following manner:

1. The Series H debentures described above were repaid on February 9, 1977, out of proceeds of a 15-year 9% Eurodollar public issue of Series J debentures in aggregate principal amount of U.S. \$50 million.

The term of these debentures is better matched to the Company's existing debt maturities than the eight-year term of the Series H and, based on current interest rates, is a lower-cost source of capital.

2. The Series I debentures were capable of being repaid at any time at no premium and on March 15, 1977, that issue was refunded by a U.S. \$40 million draw down of a new seven-year line of credit negotiated with a Canadian chartered bank on more favourable terms.

3. The Company negotiated a private placement of U.S. \$85 million of preferred shares with Canadian financial institutions. The issuance of these preferred shares will require amendments to the Company's Articles and Memorandum and the necessary amendments will be presented to the shareholders for their approval at the Annual General Meeting. The preferred shares will be redeemable after five years and retractable at the option of the holder after ten years and will carry a cumulative dividend of 5% for the first five years and thereafter a dividend related to the U.S. bank prime rate.

The stringent capital expenditure program adopted over the last two years has concentrated on expenditures essential to maintain MB's productive assets with only modest amounts spent on expansion. With an improved capital base, MB now plans for increased capital expenditures in 1977 and subsequent years. These expenditures will reflect a program of plant modernization and productivity improvement aimed at achieving maximum value extraction from the Company's basic raw material resources.

Throughout most of 1976, the U.S. dollar traded at a discount in terms of the Canadian dollar. Since a major portion of MB's sales are denominated in U.S. dollars, a significant negative impact on earnings resulted from the reduced Canadian dollar realization from such sales. A severe decline in the value of the pound sterling relative to the Canadian dollar also contributed adversely to MB's results.

Compared with 1975, the impact of the decline in the U.S. dollar on sales realizations reduced net earnings by approximately \$5.5 million, after tax. In addition, the lower value of the pound sterling and U.S. dollar vis-a-vis the

Canadian dollar gave rise to an after-tax foreign exchange loss of approximately \$2.8 million, upon the 1976 year-end translation of foreign currency working capital of MacMillan Bloedel and its subsidiaries into Canadian dollars.

In November, however, the value of the Canadian dollar began a significant decline in terms of the U.S. dollar, moving toward a more realistic relationship based on the relative fundamental strengths of the two economies. The U.K. pound also strengthened to a modest extent. These changes of exchange levels are having a favourable impact on results in 1977.

The anti-inflation program introduced by the Government of Canada in late 1975 remained in effect throughout 1976 and the Company continued to comply with the regulations.

The cumulative effect of inflation and technology, together with a growing awareness of certain limitations with regard to financial statements prepared on an historical cost basis, has led to a world-wide debate as to the usefulness of information developed under traditional financial reporting.

The U.S. Securities and Exchange Commission has instituted regulations which require reporting companies (of which MB is one) to disclose to it certain financial data reflecting estimates of current replacement costs of productive capacity and inventories. With the varying approaches taken by companies in meeting this requirement and the subjective judgments and different factual circumstances involved, the data is unlikely to be fully comparable between companies.

MacMillan Bloedel has compiled internal engineering estimates for each operating division to determine the lowest amount that would have to be paid to obtain a new asset of equivalent productive capacity located on its present site. The estimates reflect inflationary cost increases and also the effects of current technological and environmental factors. The estimates also assume the continuation of MB's current raw material supply and current mix of production.

Based on these criteria, the replacement cost of productive capacity

of MB's buildings and equipment as at December 31, 1976, is estimated to be \$3,188 million (\$1,501 million depreciated) compared with an original cost of \$1,138 million on an historical cost basis (\$557 million depreciated). Assuming the same economic lives of buildings and equipment as the Company's present facilities, the depreciation expense for the 1976 year based on such replacement costs would have increased by approximately \$79 million to \$132 million. This data should not be interpreted as indicating that MB would or could replace its productive capacity in the manner assumed in the estimates. However, the figures do demonstrate the extent of future capital requirements by companies such as MB in order to maintain current productive capacity.

It must be recognized that the reported profits of companies such as MacMillan Bloedel are affected by inflation in many ways other than that arising from the current replacement cost of productive capacity. In particular, inflation-induced inventory profits can have a significant impact on reported profits and give rise to higher payments of tax than are justified by actual conditions and circumstances.

As such problems face most industrial companies in Canada, it would appear essential that relief through taxation policies in the area of inventory valuations and replacement costs be afforded in order to ease the financial burden of refurbishing and maintaining current productive capacity and inventories, and to permit Canadian industry to maintain its position in the international market place and contribute to a healthy economy.

MacMillan Bloedel Limited and Subsidiaries

Net Earnings (Note 1.)

	Sales (Note 2.)		Earnings (Note 3.)	
	Year Ended December 31			
	1976	1975	1976	1975
	(in millions of dollars)			
Contributions from operations:				
Building Materials	\$ 648.7	\$ 489.7	\$ (3.0)	\$(28.9)
Pulp and Paper	606.2	530.5	135.0	102.5
Packaging	210.8	205.1	8.4	11.6
Transportation*	130.7	140.0	(22.8)	(46.3)
Other	4.2	4.1	2.2	(1.3)
	1,600.6	1,369.4	119.6	37.6
Less inter-Group transactions	80.4	72.7	.2	(1.4)
	\$1,520.2	\$1,296.7	119.6	39.0
Share of profits (losses) of other companies in which MacMillan Bloedel has a significant interest (before income taxes)			2.6	(1.9)
			122.2	37.1
Deduct:				
Unallocated general and administrative expenses			26.7	26.1
Interest			33.7	31.7
			60.4	57.8
Earnings (loss) before income taxes (see reconciliation below)			\$ 61.8	\$(20.7)
Division of earnings (loss) before income taxes:				
Governments				
Income taxes** (Canadian (Federal and Provincial), United States and various other countries)			\$ 37.5	\$ (1.6)
Shareholders				
Share of net earnings (loss) belonging to minority shareholders of certain subsidiary companies			1.5	(.2)
Remaining net earnings (loss) belonging to MacMillan Bloedel shareholders:				
Dividends			7.4	13.8
Re-invested (deficiency)			15.4	(32.7)
			\$ 51.8	\$(20.7)
Reconciliation:				
Earnings (loss) before income taxes (as above)			\$ 61.8	\$(20.7)
Deduct:				
Current and deferred income taxes (including proportion of income taxes of partly-owned companies)			37.5	(1.6)
Minority interests in net earnings (losses) of certain subsidiary companies			1.5	(.2)
			39.0	(1.8)
Net earnings (loss) per audited Consolidated Statement of Earnings (see page 36)			\$ 22.8	\$(18.9)

* Including contributions to earnings from log towing and log barging operations.

** Including deferred income taxes (excluding stumpage, property and sales taxes, and other government taxes amounting to over \$48.8 million (1975-\$38.5 million) which are reflected in the calculation of the contributions from operations).

Notes:

- The financial statements on Pages 28, 29 and 30 have been prepared in simplified form for ease of reading. Formal audited financial statements are set out on Pages 34 through 45.
- Sales of "Building Materials" do not include any amounts for raw materials and by-products, such as logs and wood chips, transferred to pulp and paper operations.
- Contributions to earnings contain some approximations and are based on pricing policies and methods of allocating costs which MacMillan Bloedel believes to be reasonable but other pricing policies and methods of allocating costs are possible. MacMillan Bloedel follows the policy of pricing substantially all inter-Group transactions at market value and this policy encompasses the transfer of raw materials and by-products as well as manufactured products. The figures are not represented, therefore, as the only interpretation, but have been computed on a basis consistent year by year.

The contributions to earnings represent sales less cost of sales, selling expenses and allocated general and administrative expenses. Contributions to earnings by "Building Materials" include the operating results of those logging and forestry operations which, for management purposes, are associated with "Building Materials".

Net Assets

	December 31	
	1976	1975
	(in millions of dollars)	
Working capital:		
Accounts receivable	\$ 173.3	\$153.9
Inventories	273.2	213.6
Prepaid expenses and miscellaneous	17.1	13.0
	463.6	380.5
Deduct:		
Net short term indebtedness	39.5	33.9
Accounts payable and miscellaneous liabilities	174.7	144.9
Instalment repayments of long term borrowings	11.9	13.7
	226.1	192.5
Total working capital	237.5	188.0
Add:		
Long term assets:		
Operating plants and equipment (at cost, less depreciation)	586.6	558.3
Timber and logging roads (net of depletion and amortization) and land	113.9	116.3
Investments:		
Significant investments in other companies (at cost plus Company's share of undistributed earnings)	76.1	76.8
Other investments	19.6	14.2
Cost of goodwill of businesses acquired less amortization to date	24.7	25.3
Various costs being written off over a number of years	2.0	3.0
	792.7	793.9
Capital employed	1,030.2	981.9
Deduct:		
Long term borrowings	172.8	346.9
Deferred income taxes	111.3	103.6
	284.1	450.5
Net assets	\$ 546.1	\$531.4
Ownership of net assets:		
Interest of minority shareholders in net assets of certain subsidiary companies	\$ 47.3	\$ 48.0
Balance of net assets belonging to MacMillan Bloedel shareholders	498.8	483.4
	\$ 546.1	\$531.4

Distribution of Shares and Shareholders As at December 31, 1976	Shares Shareholders	
Canada	18,825,559	15,608
United States	2,354,417	980
Other	78,973	171
	21,258,949	16,759
Share Warrants	2,226	
	21,261,175	

MacMillan Bloedel Limited and Subsidiaries

Capital Requirements and Source of Funds

	Year Ended December 31	
	1976	1975
Capital requirements:	<i>(in millions of dollars)</i>	
Long term:		
New property, plant and equipment*	\$ 63.1	\$ 80.7
New investments acquired	16.6	12.9
	79.7	93.6
Increase (decrease) in current assets other than cash and short term investments	83.1	(9.6)
(Increase) in current liabilities other than short term indebtedness	(28.0)	(18.2)
Total capital requirements	\$135.0	\$ 65.8
Source of funds:		
Funds generated from operations	\$102.0	\$ 59.5
Dividends received from partly-owned companies	.4	2.4
	102.4	61.9
Deduct:		
Dividends paid to minority shareholders of certain subsidiary companies	2.5	2.2
Dividends paid to MacMillan Bloedel shareholders	7.4	13.8
	9.9	16.0
Funds generated by Company and re-invested	92.5	45.9
Add:		
Increase in long term indebtedness	25.7	29.1
Money or assets received for new shares issued	—	1.0
Disposal of assets and miscellaneous	11.2	21.4
	129.4	97.4
Increase (decrease) in short term indebtedness	5.6	(31.6)
Total source of funds	\$135.0	\$ 65.8

*Excluding property, plant and equipment of subsidiaries acquired during the year.

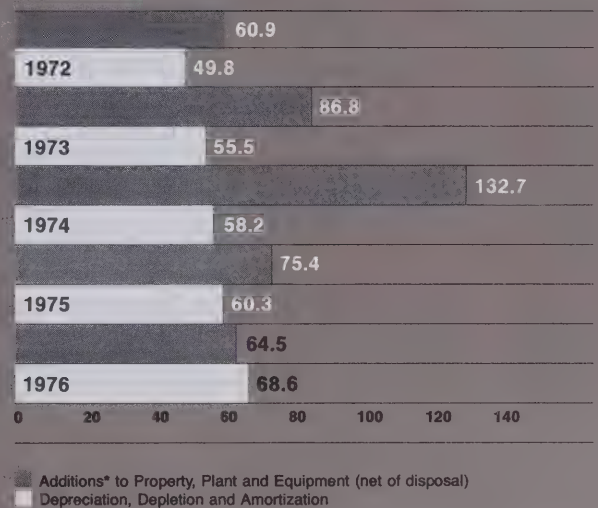
New Property, Plant and Equipment (\$000)

The total expenditures for the year of \$63,325 were grouped as follows:

Logging	
Timber, roads and logging equipment including equipment for road construction	\$28,016
Building Materials	
Completion of the specialty sawmill at Edenton, N.C. and #4 Woodroom at Harmac, B.C., pollution control projects and general improvements to operating facilities	6,799
Pulp and Paper	
Construction of a power boiler at Port Alberni, completion of the thermomechanical ground-wood facilities at Saint John, N.B., pollution control projects and general improvements to operating facilities	24,067
Packaging	
General improvements to operating facilities	2,613
Other	1,830
	\$63,325

Additions to Property, Plant and Equipment (Net)* and Depreciation, Depletion and Amortization

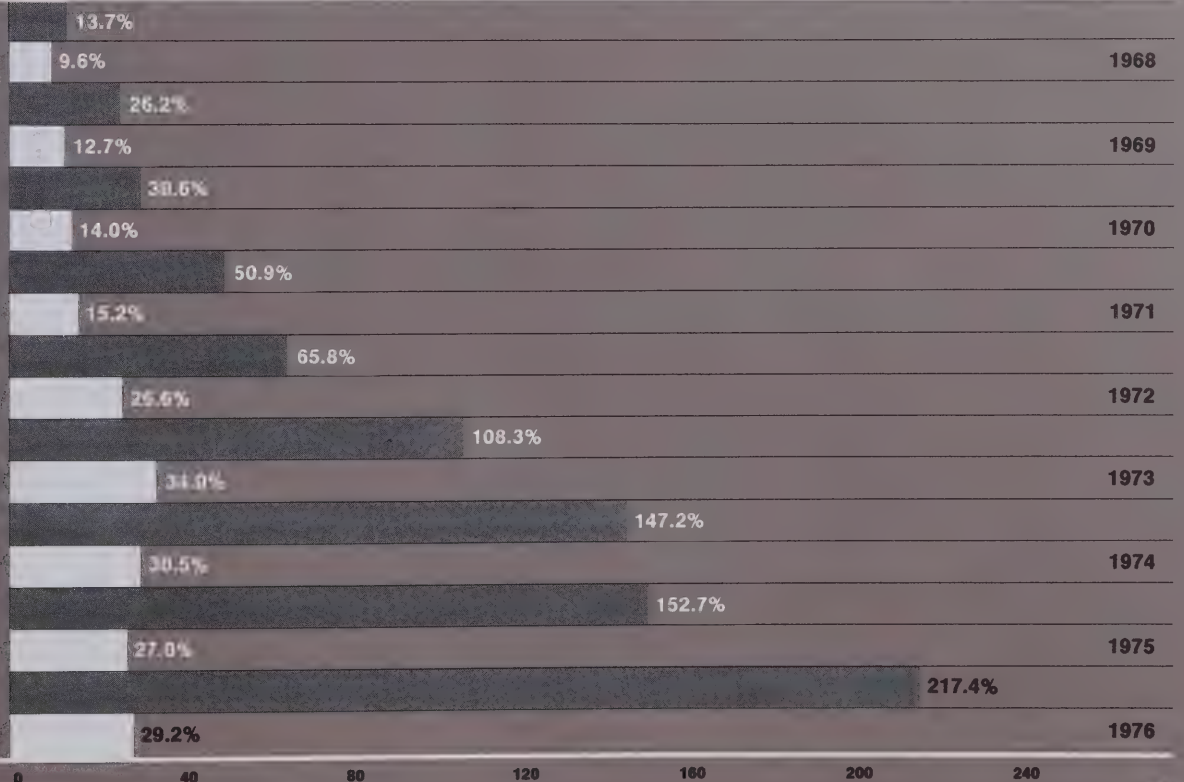
(in millions of dollars)



*Including property, plant and equipment of subsidiaries acquired during the year.

Percentage Increase of Wages, Salaries and Employee Benefits and Number of Employees 1967-1976

■ Number of Employees
■ Wages, Salaries and Employee Benefits
1967 as Base



MacMillan Bloedel Limited and Subsidiaries

Historical Summary

Operating Statistics

	1976	1975
Production		
Logs (M. Cu. Ft.)	389,970	258,713
Lumber (MFBM)	1,180,325	766,542
Panelboards (M. Sq. Ft. $\frac{3}{4}$ ")	838,138	670,493
Newsprint (Metric Tonnes)	1,064,722	870,959
Pulp (Metric Tonnes)	439,688	322,138
Kraft paper and paperboard (Metric Tonnes)	407,355	339,000
Fine paper (Metric Tonnes)	29,672	24,557
Corrugated containers (M.Sq. Ft.)	8,267,978	7,636,764
Employees		
Wages, Salaries and Employee Benefits (\$000)	\$ 443,015	\$ 352,733
Number of Employees at Year End	23,601	23,206

Financial Statistics (\$000)

Earnings Statement		
Sales and other income	\$1,523,344	\$1,297,518
Cost of sales and services	\$1,315,926	\$1,173,995
Selling, general and administrative expense	\$ 114,550	\$ 110,687
Interest expense	\$ 33,682	\$ 31,661
Income taxes	\$ 36,074	\$ (2,764)
Equity in earnings (losses) of partly-owned companies	\$ 1,219	\$ (3,080)
Minority interests in subsidiaries	\$ (1,489)	\$ 198
Extraordinary items	\$ —	\$ —
Net earnings (loss)	\$ 22,842	\$ (18,943)
Basic net earnings (loss) per Ordinary share (dollars)	\$ 1.07	\$ (.89)
Balance Sheet		
Working capital	\$ 237,490	\$ 187,993
Property, plant and equipment (net book value)	\$ 670,505	\$ 674,564
Long term debt	\$ 372,755	\$ 346,882
Share capital	\$ 171,175	\$ 171,175
Retained earnings	\$ 327,634	\$ 312,233
Source and Application of Working Capital		
Source — operations	\$ 102,360	\$ 61,941
— long term financing	\$ 41,052	\$ 45,568
— other	\$ 11,248	\$ 22,384
Application — plant and equipment	\$ 58,810	\$ 76,793
— timber and land	\$ 4,515	\$ 3,875
— dividends to shareholders of the Company	\$ 7,441	\$ 13,793
— other	\$ 34,397	\$ 31,664
Net increase (decrease) in working capital	\$ 49,497	\$ 3,768
Other		
Current ratio	2.0:1	1.9:1
Operating cash flow per share (dollars)	\$ 4.81	\$ 2.92
Return on capital employed	3.8%	(.7)%
Return on shareholders' equity	4.6%	(3.9)%
Ordinary shares outstanding at year end	21,261,175	21,261,175
Number of Ordinary shareholders at year end	16,759	16,654
Dividends — per Ordinary share (dollars)	\$.35	\$.65
— per Preference share (dollars)	\$ —	\$ —
Shareholders' equity per Ordinary share (dollars)	\$ 23.46	\$ 22.74
Price range of stock — high (dollars)	\$ 24.00	\$ 25.75
— low (dollars)	\$ 17.75	\$ 16.75

1974	1973	1972	1971	1970	1969	1968	1967
326,704	381,319	302,646	338,578	307,920	359,924	310,003	274,677
988,147	1,286,188	1,263,466	1,359,605	1,180,541	1,244,260	1,279,284	1,139,437
618,298	709,999	708,450	708,912	595,107	668,104	559,720	506,569
1,086,661	1,175,934	1,108,853	1,103,462	992,247	841,748	738,220	755,105
433,342	412,640	447,492	443,893	438,224	504,819	496,013	499,174
339,715	410,447	401,335	359,806	316,878	413,362	217,076	161,825
30,270	28,657	26,229	24,892	25,066	22,073	21,130	18,870
8,768,710	9,593,678	7,029,314	4,608,275	4,541,820	4,603,282	4,369,452	4,075,932
\$ 344,976	\$ 290,776	\$ 231,405	\$ 210,631	\$ 182,261	\$ 176,072	\$ 158,644	\$ 139,566
23,847	24,478	23,136	21,036	20,830	20,595	20,023	18,268
\$1,398,848	\$1,219,242	\$ 966,495	\$ 778,025	\$ 687,838	\$ 678,785	\$ 619,989	\$ 563,333
\$1,171,586	\$ 992,938	\$ 827,789	\$ 673,941	\$ 584,272	\$ 530,336	\$ 488,590	\$ 443,320
\$ 92,833	\$ 66,697	\$ 55,084	\$ 47,261	\$ 45,881	\$ 40,756	\$ 37,608	\$ 34,027
\$ 21,459	\$ 15,086	\$ 17,240	\$ 18,778	\$ 19,193	\$ 14,218	\$ 13,075	\$ 11,307
\$ 58,041	\$ 66,607	\$ 32,453	\$ 20,138	\$ 21,178	\$ 50,636	\$ 42,442	\$ 37,976
\$ 19,098	\$ 6,187	\$ 3,943	\$ 1,643	\$ 1,234	\$ 759	\$ 326	\$ 137
\$ (1,729)	\$ (2,349)	\$ (313)	\$ 3,024	\$ (678)	\$ (1,327)	\$ 79	\$ (177)
\$ —	\$ —	\$ 2,625	\$ 3,367	\$ —	\$ —	\$ —	\$ —
\$ 72,298	\$ 81,752	\$ 40,184	\$ 25,941	\$ 17,870	\$ 42,271	\$ 38,679	\$ 36,663
\$ 3.41	\$ 3.90	\$ 1.92	\$ 1.24	\$.85	\$ 2.02	\$ 1.85	\$ 1.76
\$ 184,225	\$ 181,519	\$ 162,029	\$ 137,117	\$ 93,706	\$ 107,227	\$ 107,927	\$ 98,601
\$ 659,480	\$ 584,928	\$ 553,633	\$ 542,593	\$ 558,865	\$ 560,739	\$ 502,251	\$ 463,837
\$ 316,297	\$ 251,695	\$ 263,194	\$ 273,772	\$ 257,432	\$ 268,494	\$ 247,428	\$ 230,790
\$ 170,154	\$ 169,279	\$ 160,660	\$ 162,632	\$ 162,632	\$ 162,626	\$ 162,093	\$ 162,093
\$ 343,292	\$ 302,892	\$ 247,354	\$ 228,124	\$ 212,699	\$ 215,783	\$ 194,461	\$ 176,716
\$ 131,581	\$ 141,782	\$ 90,934	\$ 67,850	\$ 66,336	\$ 95,536	\$ 80,403	\$ 75,540
\$ 76,084	\$ 3,881	\$ 841	\$ 29,971	\$ 310	\$ 4,741	\$ 7,367	\$ 24,599
\$ 15,162	\$ 15,801	\$ 36,480	\$ 15,575	\$ 12,916	\$ 8,468	\$ 7,934	\$ 6,296
\$ 121,341	\$ 74,781	\$ 35,961	\$ 34,587	\$ 51,908	\$ 48,497	\$ 37,715	\$ 65,010
\$ 11,939	\$ 5,077	\$ 3,669	\$ 3,276	\$ 2,792	\$ 14,835	\$ 9,101	\$ 7,054
\$ 37,125	\$ 26,214	\$ 20,954	\$ 10,516	\$ 20,954	\$ 20,948	\$ 20,934	\$ 25,105
\$ 49,716	\$ 35,902	\$ 42,759	\$ 21,606	\$ 17,429	\$ 25,165	\$ 18,628	\$ 5,098
\$ 2,706	\$ 19,490	\$ 24,912	\$ 43,411	\$ (13,521)	\$ (700)	\$ 9,326	\$ 4,168
1.8:1	2.1:1	2.3:1	2.1:1	1.7:1	1.9:1	2.2:1	2.3:1
\$ 6.20	\$ 6.77	\$ 4.36	\$ 3.25	\$ 3.18	\$ 4.58	\$ 3.86	\$ 3.62
8.6%	10.9%	6.1%	4.3%	3.7%	6.7%	6.6%	6.6%
14.1%	17.3%	9.8%	6.6%	4.8%	11.2%	10.9%	10.9%
21,220,175	21,192,385	20,876,385	20,876,385	20,876,385	20,876,165	20,856,255	20,856,255
16,385	17,120	19,125	20,124	21,575	22,282	23,751	24,671
\$ 1.75	\$ 1.25	\$ 1.00	\$.50	\$ 1.00	\$ 1.00	\$ 1.00	\$ 1.20
\$ —	\$ —	\$.03	\$.03	\$.03	\$.03	\$.03	\$.03
\$ 24.20	\$ 22.28	\$ 19.51	\$ 18.59	\$ 17.85	\$ 18.00	\$ 16.93	\$ 16.08
\$ 33.25	\$ 40.00	\$ 28.50	\$ 28.37	\$ 34.00	\$ 39.62	\$ 29.50	\$ 31.00
\$ 20.25	\$ 25.37	\$ 22.62	\$ 19.75	\$ 21.62	\$ 28.00	\$ 17.75	\$ 23.12

MacMillan Bloedel Limited

Consolidated Balance Sheet

Assets	December 31	
	1976	1975
	(\$000)	
Current assets:		
Cash	\$ 5,650	\$ 4,983
Short term investments and deposits, at cost which approximates market value	18,221	18,484
Trade and other accounts receivable	173,296	153,932
Income taxes recoverable	—	1,007
Inventories (Note 2)	273,169	213,642
Prepaid expenses	4,450	6,337
Deferred income taxes—current items	12,572	5,655
	487,358	404,040
Investments and other assets:		
Partly-owned companies (Note 3)	75,052	76,827
Other investments and assets, at cost	19,620	14,169
	94,672	90,996
Property, plant and equipment:		
Buildings and equipment, at cost (Note 4)	1,138,306	1,098,405
Less: Accumulated depreciation	581,724	540,168
	556,582	558,237
Timber, at cost less accumulated depletion of \$104,313,000 (1975—\$98,156,000)	72,809	74,938
Logging roads, at cost less amortization	27,335	27,353
Land, at cost	13,779	14,036
	670,505	674,564
Intangible assets (at cost less amortization):		
Unallocated purchase price of shares in subsidiaries	24,667	25,334
Bond and debenture financing expenses and other	2,858	2,969
	27,525	28,303
	\$1,280,060	\$1,197,903

LiabilitiesDecember 31
1976 1975

(\$000)

Current liabilities:

Bank loans and indebtedness (Note 5)	\$ 39,570	\$ 33,983
Notes payable	23,745	23,447
Accounts payable and accrued liabilities	146,854	144,875
Income taxes payable	27,831	—
Current portion of long term debt (Note 7)	11,868	13,742
	249,868	216,047

Long term debt:

Bonds and debentures (Note 6)	353,652	325,483
Other secured liabilities	19,103	21,399
	372,755	346,882

Deferred income taxes

111,350 103,596

Minority interests in subsidiaries (Note 8)47,278 47,970
781,251 714,495**Shareholders' Equity****Share capital:**

Ordinary shares without par value (Note 9)—

Authorized—25,000,000 shares

Outstanding—21,261,175 shares

171,175 171,175

Retained earnings

327,634 312,233

498,809 483,408

Commitments (Notes 8 and 10)**Subsequent events (Note 14)**

\$1,280,060 \$1,197,903

MacMillan Bloedel Limited

Consolidated Statement of Earnings

	Year ended December 31	
	1976	1975
	(\$000)	
Sales and other income:		
Sales of products and services (Note 11(a))	\$1,520,207	\$1,296,689
Income from investments	2,864	3,378
Profit (loss) on disposal of and provisions for loss with respect to property, plant and equipment and investments and other assets	273	(2,549)
	1,523,344	1,297,518
Costs and expenses (Notes 11(b), (c), (d) and 12):		
Cost of sales and services	1,315,926	1,173,995
Selling, general and administrative	114,550	110,687
Long term debt interest	29,482	24,981
Bank and other interest	4,200	6,680
	1,464,158	1,316,343
Earnings (loss) before income taxes and other undernoted items	59,186	(18,825)
Income taxes (Note 11(f)):		
Current	35,237	(11,160)
Deferred	837	8,396
	36,074	(2,764)
Earnings (loss) before undernoted items	23,112	(16,061)
Equity in earnings (losses) of partly-owned companies	1,219	(3,080)
Minority interests in subsidiaries	(1,489)	198
Net earnings (loss)	\$ 22,842	\$ (18,943)
Basic net earnings (loss) per Ordinary share (Note 11(e))	\$ 1.07	\$ (.89)

MacMillan Bloedel Limited

Consolidated Statement of Retained Earnings

	Year ended December 31	
	1976	1975
	(\$000)	
Balance at beginning of year	\$312,233	\$343,292
Net earnings (loss)	22,842	(18,943)
Surplus arising out of shares issued by subsidiary company, less charge arising from conversion of debentures of a partly-owned company (Note 11(e))	—	1,677
	335,075	326,026
Dividends—\$.35 per share (\$.65 per share in 1975)	7,441	13,793
Balance at end of year	\$327,634	\$312,233

MacMillan Bloedel Limited
Consolidated Statement of Source and
Application of Working Capital

	Year ended December 31	
	1976	1975
	(\$000)	
Source of working capital:		
Earnings—		
Net earnings (loss)	\$ 22,842	\$(18,943)
Depreciation, depletion and amortization of logging roads	68,580	60,295
Deferred income taxes— non-current portion	7,754	10,621
Other components not affecting working capital (net)	3,184	9,968
	102,360	61,941
Net proceeds of long term debt	41,052	45,568
Proceeds of disposals of investments and other assets and property, plant and equipment	10,739	12,365
Other sources	509	10,019
	154,660	129,893
Application of working capital:		
Additions to property, plant and equipment	63,325	80,668
Investments and other assets	9,782	11,619
Reduction in long term debt	15,297	16,543
Dividends to shareholders of the Company	7,441	13,793
Other applications	9,318	3,502
	105,163	126,125
Increase in working capital	49,497	3,768
Working capital at beginning of year	187,993	184,225
Working capital at end of year	\$237,490	\$187,993

(Certain 1975 figures have been reclassified for conformity with 1976.)

The consolidated financial statements have been approved by the Board of Directors:

J. Ernest Richardson, Director

C. Calvert Knudsen, Director

Auditors' Report

To the Shareholders of
MacMillan Bloedel Limited:

We have examined the consolidated balance sheet of MacMillan Bloedel Limited as at December 31, 1976 and the consolidated statements of earnings, retained earnings and source and application of working capital for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances. We have relied on a report of the auditors who have examined the consolidated financial statements of Koninklijke Nederlandse Papierfabrieken N.V., a partly-owned company accounted for by the equity method.

In our opinion these consolidated financial statements present fairly the financial position of the Company as at December 31, 1976 and the results of its operations and the source and application of its working capital for the year then ended, in accordance with generally accepted accounting principles which, except for the change, with which we concur, in the basis of accounting for certain capital transactions of subsidiaries and partly-owned companies (Note 11(e)), have been applied on a basis consistent with that of the preceding year.

February 28, 1977
Vancouver, B.C.

PRICE WATERHOUSE & CO.
Chartered Accountants

Notes to Consolidated Financial Statements

December 31, 1976

1. Accounting policies:

The following accounting policies used by MacMillan Bloedel Limited (the Company) are stated here to assist in understanding the consolidated financial statements.

(a) Principles of consolidation —

The accompanying financial statements represent the consolidation of the financial statements of the Company and all its subsidiaries (MacMillan Bloedel) except Embrasca-Empreendimentos Florestais e Agrícolas Ltda. and its subsidiaries. The Company owns 51% of the voting shares of Embrasca but the terms of a shareholders' agreement make it inappropriate to consolidate the corporation and its subsidiaries. Instead the financial results of their operations are recorded under the equity method of accounting (see Note 1(d) below).

(b) Foreign currency translations —

A number of subsidiaries and partly-owned companies operate in foreign countries. Additionally, substantial volumes of transactions of the Company and certain of its Canadian subsidiaries are denominated in foreign currencies. Transactions of the Company and these Canadian subsidiaries are covered by forward exchange contracts where considered appropriate, in which case, foreign exchange translations are made at such forward exchange contract rates. In all other cases, current assets and current liabilities are translated at the rates of exchange in effect as at the balance sheet dates, other assets (and related depreciation, depletion and amortization) and liabilities at the rates in effect at the dates on which the assets were acquired or the liabilities were incurred, and items affecting net earnings (other than inventories, depreciation, depletion and amortization) at the average rates for the year. Net balances arising from the translation of foreign currencies are included in consolidated net earnings.

(c) Valuation of inventories —

Inventories of logs, pulp chips, pulpwood and cordwood, and substantially all operating and maintenance supplies are valued at the lower of average cost and replacement cost. Inventories of manufactured products are valued principally at the lower of average cost and net realizable value.

(d) Accounting for partly-owned companies —

Partly-owned companies are those companies for which the equity method of accounting is appropriate. Under this method, MacMillan Bloedel's share of the net earnings of the partly-owned companies, net of applicable income taxes, is included in consolidated net earnings. In computing the equity in earnings of foreign partly-owned companies, their financial statements are adjusted where necessary to conform with generally accepted accounting principles in Canada.

(e) Property, plant and equipment, accumulated depreciation and depletion, and amortization of logging roads —

The costs of maintenance, repairs, minor renewals or replacements and spur logging roads are charged to cost of sales and services or other expenses. The costs of major replacements, extensions and improvements are capitalized in the property, plant and equipment accounts. On retirement or disposal of property, plant and equipment, the costs thereof and the related accumulated depreciation or depletion are eliminated from the accounts and any gains or losses are reflected in the consolidated statement of earnings.

Depreciation is computed on a straight-line basis on original cost; depletion of timber and amortization of main logging roads are determined on a basis related to log production. Amortization of main logging roads is deducted from the asset account.

1. Accounting policies: (continued)

Rates of depreciation by principal asset classification are as follows—

Buildings	2½% and 5%
Pulp and paper mill machinery and equipment	5%
Logging machinery and equipment	15-20%
Other manufacturing machinery and equipment	7½-15%
Ships, tugs, barges and scows	7½-10%

(f) Intangible assets —

The unallocated purchase price of shares in subsidiaries, which represents the excess of the purchase price over the values attributed to the underlying net tangible assets at dates of acquisition, is amortized on a straight-line basis over appropriate periods (forty years at present).

Amortization of bond and debenture financing expenses is computed on a basis related to the principal amounts outstanding. Other intangible assets are being amortized at appropriate straight-line rates.

(g) Income taxes —

Income taxes are recorded on the tax allocation basis recommended by the Canadian Institute of Chartered Accountants. Accordingly, deferred income tax provisions (or reductions) are recorded in the consolidated statement of earnings in appropriate amounts to reflect the income tax effects of timing differences arising each year. In MacMillan Bloedel's case, such differences result principally from depreciation being claimed for income tax purposes in amounts differing from depreciation recorded for accounting purposes and from charges to earnings in a year of items which will only be deductible for tax purposes in future years.

(h) Voyage accounting —

The completed voyage method is used in accounting for ocean voyages. Under this method, revenues and expenses relating to voyages in progress are deferred until the completion of a voyage, at which time, they are transferred to the statement of earnings. Where, however, aggregate net losses are estimated to result from voyages in progress as of the end of an accounting period, provision is made for such losses. MacMillan Bloedel also provides currently for net losses expected to be incurred on voyages not started but for which the rates and other terms of charter hire expense and freight revenue are contracted by the end of an accounting period.

Subcharter revenue and charter hire expense are included in earnings as the subcharter revenue is earned and the expense is incurred. Where, however, it is determined that aggregate charter hire expenses on vessels subchartered prior to the end of an accounting period will exceed subcharter revenues over the period of the subcharter, provision is made for such losses.

(i) Pension costs —

Normal pension cost accruals are made on the basis of annual reviews of the position of MacMillan Bloedel's various pension plans and other retirement arrangements. Additionally, pension plan surpluses and deficits derived from periodic actuarial estimates are amortized to earnings over appropriate periods.

(j) Research, development and pre-operating expenses —

All such expenses are charged against consolidated net earnings as incurred.

2. Inventories:

	December 31	
	1976	1975
	(\$000)	
Logs, pulp chips, pulpwood and cordwood	\$ 85,079	\$ 75,591
Operating and maintenance supplies	29,277	27,092
Lumber, plywood and other building materials	96,221	67,646
Pulp and paper products	57,081	37,795
Packaging products	5,511	5,518
	\$273,169	\$213,642

The carrying value of logs at December 31, 1976 has been reduced by a provision of approximately \$3,000,000 reflecting a current imbalance in the supply and demand of pulp logs.

3. Partly-owned companies:

	December 31	
	1976	1975
	(\$000)	
Investments in shares, at cost	\$50,645	\$48,501
Accumulated equity in earnings since acquisition, less dividends received	22,614	20,110
Advances	1,793	8,216
	\$75,052	\$76,827

3. Partly-owned companies: (continued)

The principal investments are in Koninklijke Nederlandse Papierfabrieken N.V. and subsidiaries and La Cellulose d'Aquitaine S.A. and subsidiaries.

The excess of the cost of investments in partly-owned companies over MacMillan Bloedel's interests in the underlying net book value of their assets at dates of purchase has been attributed to property, plant and equipment and intangible assets and is being depreciated or amortized at appropriate straight-line rates. The unamortized excess at December 31, 1976 amounted to \$4,662,000.

4. Buildings and equipment:

	Cost	Accumulated depreciation	Net
		(\$000)	
December 31, 1976 —			
Pulp and paper mills	\$ 702,898	\$366,326	\$336,572
Sawmills, plywood mills and other building materials plants	162,299	89,635	72,664
Logging buildings and equipment	124,247	67,399	56,848
Packaging plants	86,580	35,559	51,021
Other buildings and equipment	62,282	22,805	39,477
	\$1,138,306	\$581,724	\$556,582
December 31, 1975 —			
Pulp and paper mills	\$ 683,138	\$346,269	\$336,869
Sawmills, plywood mills and other building materials plants	160,769	83,073	77,696
Logging buildings and equipment	115,689	60,724	54,965
Packaging plants	85,301	31,774	53,527
Other buildings and equipment	53,508	18,328	35,180
	\$1,098,405	\$540,168	\$558,237

MacMillan Bloedel's principal plant facilities in Alabama and its head office building in British Columbia are held under long term leases containing provisions which indicate that the assets should be accounted for on a basis of ownership. Consequently, the cost of these leased assets, aggregating \$92,645,000 (1975—\$91,674,000), and related depreciation and long term debt are included in the accompanying financial statements.

5. Short term borrowings and lines of credit:

As at December 31, 1976, MacMillan Bloedel had bank lines of credit of \$195,033,000 (1975—\$193,799,000) of which the majority were contractual. Of these lines \$21,973,000 was used by bank loans and \$22,500,000 represented coverage for notes payable of the Company. The lines of credit are available for periods not exceeding twelve months.

Average outstanding short term borrowings (bank loans and notes payable) for 1976 amounted to \$42,000,000 (1975—\$58,000,000) and the average interest rate on such borrowings was 9.59% (1975—8.62%) for the year. Maximum month-end short term borrowings in 1976 amounted to \$63,300,000 (1975—\$95,100,000).

6. Bonds and debentures:

	December 31 1976	1975
	(\$000)	
MacMillan Bloedel Limited—		
4.95%* sinking fund debentures, Series A, maturing October 1, 1990 (U.S. \$29,400,000)	\$ 31,584	\$ 33,840
5½%* ten-year term debentures, Series B, maturing January 3, 1976	—	50,000
6½% sinking fund debentures, Series C, maturing July 15, 1992 (U.S. \$22,060,000)	23,773	25,777
7½% debentures, Series D, maturing May 15, 1978	10,000	10,000
8½% sinking fund debentures, Series E, maturing May 15, 1991	19,268	20,000
8¾% sinking fund debentures, Series F, maturing July 1, 1994 (U.S. \$75,000,000)	72,399	72,399
11¼% sinking fund debentures, Series G, maturing January 15, 1995	40,000	40,000
Series H debentures, maturing January 3, 1984 (see below)	50,000	—
Series I debentures, maturing in instalments to June 15, 1983 (U.S. \$40,000,000) (see below)	39,252	—
8½% subordinated convertible debentures, maturing December 20, 1984 (U.S. \$2,098,000) (Note 9)	2,075	2,075
Carried forward	288,351	254,091

6. Bonds and debentures: (continued)

	December 31	
	1976	1975
	(\$000)	
<i>Brought forward</i>	\$288,351	\$254,091
MacMillan Bloedel Inc.**—		
4%% sinking fund industrial development revenue bonds, maturing June 1, 1988 (U.S. \$48,785,000)	52,444	55,594
MacMillan Rothesay Limited—		
6% first mortgage and collateral sinking fund bonds, Series A, maturing March 1, 1985 (U.S. \$7,530,000)	8,095	8,987
6¼% general mortgage sinking fund bonds, Series A, maturing October 1, 1985	6,730	6,730
7½% debenture certificate, due December 31, 1979	23	23
	14,848	15,740
MacMillan Bloedel Industries Limited—		
Sinking fund debentures:		
5%% twenty-year debentures, Series A, maturing May 15, 1978	3,059	4,109
4%% twenty-year debentures, Series B, maturing May 15, 1978 (U.S. \$1,350,000)	1,299	1,924
	4,358	6,033
Lee Timber Products Inc.*** —		
5½% first mortgage industrial revenue bonds, maturing August 1, 1976	—	3,980
6% industrial development revenue bonds, maturing September 1, 1979 (U.S. \$1,000,000)	971	—
	971	3,980
Burnaby Paperboard Ltd.—		
5¼% first mortgage and collateral trust sinking fund bonds, maturing May 15, 1978	1,049	1,119
Kingsway Lumber Co. Limited—		
6¼% sinking fund debentures:		
Series A, maturing December 15, 1982	349	425
Series B, maturing February 1, 1985	357	413
	706	838
	362,727	337,395
Less: Payments due within one year, before adjustment to current rate of exchange (Notes 1(b) and 7)	9,075	11,912
	\$353,652	\$325,483

* Extra interest of ½ of 1% per annum has been paid on these debentures from January 1, 1975 consequent upon amendment of the relevant trust indentures.

** These industrial development revenue bonds are direct obligations of The Industrial Development Board of the Town of Camden, Alabama (see Note 4).

*** These industrial revenue bonds are direct obligations of The Industrial Development Board of the City of Opelika, Alabama (see Note 4).

Bonds and debentures repayable in U.S. currency at December 31, 1976 aggregating \$227,223,000 have been translated into Canadian dollars at appropriate current and historical exchange rates (Note 1(b)). On the basis of exchange rates in effect at December 31, 1976 there were unrealized gains on foreign exchange of approximately \$2,250,000 which have not been recognized in the accompanying consolidated financial statements.

The majority of MacMillan Bloedel's assets are pledged by fixed and floating charges as security for the bonds, debentures and other secured liabilities outstanding. The trust indentures securing the Company's debentures contain provisions restricting the payment of dividends. At December 31, 1976, under the most restrictive of these provisions approximately \$22,000,000 of consolidated retained earnings were available for payment of dividends.

The proceeds of the Series H debentures were used to retire the Series B debentures which matured January 3, 1976. Interest on the Series H debentures is at a rate of 1¼% above the minimum lending rate charged from time to time by a Canadian Chartered Bank (averaging 11.3% from date of issue to December 31, 1976). Interest on the Series I debentures is at a rate of 1¼% above the London interbank offering rate charged from time to time by a United States national banking association (averaging 7.5% from date of issue to December 31, 1976). The Series I debentures are redeemable by the Company upon five days notice without penalty or premium.

7. Payments on long term debt:

Payments on long term debt required for each of the five years after December 31, 1976 are as follows—

	Bonds and debentures	Other secured liabilities	Total
		(\$000)	
1977 (after adjustment to current rate of exchange— Notes 1(b) and 6)	\$ 8,722*	\$3,146	\$11,868
1978	24,272*	2,025	26,297
1979	17,507	1,184	18,691
1980	18,638	1,110	19,748
1981	34,688	1,027	35,715

* Net of purchases and cancellation of bonds and debentures up to December 31, 1976

8. Minority interests in subsidiaries:

	December 31 1976	1975
	(\$000)	
Preference shareholders	\$25,241	\$25,241
Common shareholders	22,037	22,729
	\$47,278	\$47,970

The minority interest of preference shareholders includes \$25,000,000 of MacMillan Rothsay Limited 6.75% cumulative redeemable preference shares. The Company has undertaken to purchase these shares or otherwise effect their redemption by June 30, 1978 and to ensure that dividends on these shares are declared and paid on their due dates.

9. Share capital:

The Company has reserved 69,933 ordinary shares for possible issue in exchange for the U.S. \$2,098,000 8½% subordinated convertible debentures maturing December 20, 1984. These debentures are convertible at any time prior to December 21, 1979 at the option of the holders into ordinary shares of the Company at the rate of 33⅓ ordinary shares for each U.S. \$1,000 face value of debentures.

Under the Company's stock option plan, options for ordinary shares may be granted to key employees, exercisable on or before dates fixed by the Board of Directors, at share prices equal to at least 90% of the closing price on the Vancouver Stock Exchange on the last business day before the options were granted. Outstanding options at December 31, 1976 were as follows—

Number of shares	Option price	Expiry date
95,600 shares	\$20.30	October 7, 1979
50,000 shares (granted during 1976)	\$19.69	August 31, 1986

No options were exercised during 1976. Options for 32,900 shares at \$20.30 were cancelled during the year.

10. Commitments:

In addition to normal commitments for capital expenditure programs and future supply of operating services and materials, MacMillan Bloedel is committed in respect of the following—

(a) Commitments, excluding potential escalation geared to future operating costs which are not yet determinable, under ship charters and rentals under non-cancellable leases having an initial term of more than one year (reduced by subcharter and sublease rentals of approximately \$6,382,000) as follows—

	Ship charters	Leases	Total
		(\$000)	
1977	\$ 51,007	\$ 5,647	\$ 56,654
1978	40,715	3,589	44,304
1979	29,303	2,464	31,767
1980	22,023	1,454	23,477
1981	22,434	1,167	23,601
1982-86	68,155	3,715	71,870
1987-91	—	1,699	1,699
1992-96	—	1,434	1,434
Subsequent to 1996	—	4,242	4,242
	\$233,637	\$25,411	\$259,048

10. Commitments: (continued)

In the majority of cases, the ship charter commitments above include components to cover the costs of manning and other operating expenses (but not fuel), as well as bare boat and owners' profit components. Accordingly, in the event of lay up of certain of the ships under charter, the commitments could be reduced by an estimated \$42,022,000.

Substantially all of the ship charter commitments are payable in foreign currencies and have been translated into Canadian dollars at exchange rates prevailing at December 31, 1976. Where charter hire is payable in U.S. dollars the commitments are regarded as automatically hedged by expected cash inflows in that currency arising from future sales of products and services. With respect to commitments in other foreign currencies it is MacMillan Bloedel's policy to enter into forward exchange contracts at such times as the net cost thereof appears in the opinion of MacMillan Bloedel to be favourable.

As at December 31, 1976 many of the ship charters are at rates above those prevailing in the spot charter market at that date.

(b) The acquisition of timber in Alabama under long term cutting contracts requiring minimum annual payments (extending in some cases to the year 2034); payments of approximately \$2,800,000 are required in each of the next five years and in diminishing amounts thereafter.

11. Earnings statement supplementary information:

(a) MacMillan Bloedel quotes and contracts the majority of its sales on a C.I.F. (cost, insurance and freight to destination) basis. Accordingly, in such circumstances sales of products and services include freight, cartage and insurance components, as well as cost and profit components, and cost of sales and services includes the related costs of those services. Sales include the sales of products purchased from other manufacturers on which the margin of gross profit realized is less than that realized on the sales of its own manufactured products.

(b) Costs and expenses include the following—

	Year ended December 31	
	1976	1975
	(\$000)	
Depreciation	\$ 53,124	\$ 49,386
Depletion	6,162	5,005
Amortization of main logging roads	9,294	5,904
	\$ 68,580	\$ 60,295
Pension expense	\$ 28,522	\$ 25,316
Rental expense on leases of more than one month, and time charter* hire including \$43,022,000 (1975—\$40,600,000) being estimated manning and other operating costs	\$100,854	\$125,225
Less: Sublease and subcharter revenue, included with sales and other income in the statement of earnings	34,903	51,436
	\$ 65,951	\$ 73,789

* Time charters represent all charters except single voyage spot charters.

(c) Cost of sales and services for the year ended December 31, 1976 includes aggregate provisions of \$3,800,000 (1975— \$8,400,000) in respect of estimated losses on voyages and subcharters which will not be completed until periods subsequent to that date (see Note 1(h)).

(d) Selling, general and administrative expenses include remuneration paid to the directors and senior officers of the Company aggregating \$2,111,000 (1975—\$2,255,000).

(e) Recommendations of the Canadian Institute of Chartered Accountants adopted in April, 1975 and effective in MacMillan Bloedel's case for 1976 require the effect of a change in a parent company's interest in a subsidiary or partly-owned company, arising from the issue of shares by the subsidiary or partly-owned company to interests outside the consolidated group, to be included in the determination of consolidated net earnings. Previously such items were taken to consolidated retained earnings. The effect of this change, as explained hereunder, has been to decrease consolidated net earnings for the year ended December 31, 1976 by \$300,000 (\$.01 per share).

Koninklijke Nederlandse Papierfabrieken N.V. has debentures outstanding which are convertible at the holders' option into common shares of that company. Actual conversions made during 1976 have resulted in a charge of \$300,000 to consolidated net earnings for the year. Conversions in 1975 resulted in a charge of \$801,000 to the consolidated statement of retained earnings for that year. Had all of the outstanding debentures been converted at the beginning of the year MacMillan Bloedel's equity in earnings of partly-owned companies for the year ended December 31, 1976 would have been reduced by \$3,900,000 (\$.18 per share) comprising \$500,000 (\$.02 per share) in respect of a reduction in equity in earnings for 1976 and \$3,400,000 (\$.16 per share) to record the cumulative reduction in equity in earnings for prior years.

11. Earnings statement supplementary information: (continued)

The Company has U.S. \$2,098,000 of convertible debentures outstanding and unexercised options for 145,600 ordinary shares at December 31, 1976 (Note 9). Neither the conversion of debentures nor the exercise of stock options would have had a material effect on earnings per share had these actions taken place during 1976.

(f) In both 1976 and 1975, the effective income tax rates are substantially different from the Canadian federal income tax rates of 46% and 47%, respectively. The principal factors causing these different effective tax rates are as follows—

	Year ended December 31	
	1976	1975
Canadian federal income tax (recovery) rate	46.0%	(47.0)%
Provincial income and logging, state and withholding tax provisions, net of applicable federal abatements	13.9	19.9
Operating and capital losses for which potential tax reductions were not recorded	2.2	17.6
Other items	(1.2)	(5.2)
Effective income tax (recovery) rate	60.9%	(14.7)%

Certain subsidiary companies have losses aggregating \$13,175,000 available for carry forward to reduce income taxes which may become payable in future years. The potential tax benefit of these losses has not been reflected in these financial statements.

12. Pension plans:

MacMillan Bloedel has a number of contributory and non-contributory pension plans, participation in which is available to substantially all employees after one or two years' continuous service. Additionally, the Company has agreements with a number of its officers and executives (including some now retired) which call for payments to be made under certain conditions following retirement. Pension and retirement benefits are determined as a function of service and earnings. On the basis of current estimates, the value of pension benefits for all plans and the liability for unfunded agreements as of December 31, 1976 were estimated to exceed the total of the pension fund assets and the balance sheet accruals by approximately \$1,600,000. MacMillan Bloedel also contributes to a number of governmental pension plans covering employees in various countries.

13. Anti-Inflation Program:

To the best of its knowledge, MacMillan Bloedel has complied with the controls on prices, profits, compensation and dividends instituted by the Government of Canada in the Anti-Inflation Act effective October 14, 1975.

14. Subsequent events:

(a) On February 9, 1977 the Company issued U.S. \$50,000,000 of 9% debentures Series J maturing February 1, 1992. The net proceeds were immediately used in the redemption of the Series H debentures.

(b) Subject to obtaining the necessary approval from the shareholders to increase the Company's authorized capital, the Company intends to sell 3,400,000 retractable cumulative redeemable preferred shares without nominal or par value for a total consideration of U.S. \$85,000,000.

15. Subsidiary companies:

Active

Canada

Canadian Transport (Europe) Limited
Forest Industries Flying Tankers Limited
Forest Transport Limited
Kingcome Navigation Company Limited
Kingsway Lumber Co. Limited
R. Laidlaw Lumber Co. Limited
MacMillan Bloedel (Alberni) Limited
MacMillan Bloedel Building Limited
MacMillan Bloedel Building Materials
(B.C.) Limited
MacMillan Bloedel Building Materials Limited
MacMillan Bloedel Building Materials
(Supply) Ltd.
MacMillan Bloedel Industries Limited
MacMillan Bloedel Packaging Limited
MacMillan Bloedel Properties Limited
MacMillan Bloedel (Quebec) Limited
MacMillan Bloedel Research Limited
MacMillan Bloedel (Saskatchewan) Limited

Inactive (including holding companies not carrying on active operations)

Alpulp Wood Products Ltd.
B.N.P. Airways Limited
Burnaby Paperboard Ltd.
Canadian White Pine Co. Limited
Canadian Transport Limited
Harmac Ltd.
Island Paper Mills Limited
Laico Limited
MacMillan Bloedel (Alberta) Limited
MacMillan Bloedel Enterprises Ltd.
MacMillan Bloedel Export Sales Ltd.
MacMillan Bloedel (Manitoba) Limited
MacMillan Bloedel (Ontario) Limited
MacMillan Bloedel Sales Limited
Powell River-Alberni Sales Limited
Powell River Co. Ltd.
Rothesay Paper Holdings Ltd.
Rothesay Paper Limited
Rothesay Shipping Ltd.

15. Subsidiary companies: (continued)

Active (continued)

Canada

MacMillan Jardine (North America) Ltd.
MacMillan Rothesay Limited
Martin Paper Bags Ltd.
Multiply Plywoods Limited
National Paper Box Limited
Vancouver Island Stevedoring Co. Ltd.
Vancouver Marine Engines Ltd.
West Coast Transport Company Limited

United States

Atlantic Forest Products Inc.
Canadian Transport (N.Y.) Inc.
Fibres International, Inc.
Habitant Sales Corporation
Habitant Shops, Inc.
Lee Timber Products, Inc.
MacMillan Bloedel (Alabama) Inc.
MacMillan Bloedel Containers Inc.
MacMillan Bloedel Enterprises, Inc.
MacMillan Bloedel Export Inc.
MacMillan Bloedel Inc.
MacMillan Bloedel (New York) Inc.
MacMillan Bloedel Particleboard Inc.
MacMillan Bloedel Sales Inc.
Robert S. Osgood, Inc.
Powell River-Alberni Sales Corporation
Star Terminal Company, Incorporated
States Navigation Corporation
Urban Fiber Industries, Incorporated

United Kingdom

Canadian Transport (Terminals) Limited
MacMillan Bloedel Containers Limited
MacMillan Bloedel Meyer Limited
MacMillan Bloedel Meyer (Terminals) Limited
MacMillan Bloedel Panelboard Agencies Limited
MacMillan Bloedel Pulp and Paper Sales Limited
Scotpack Limited

Other

Altair Limited*
Canadian Transport Company Pty. Limited
Comfloresta-Companhia Catarinense de Empreendimentos Florestais**
Embrasca-Empreendimentos Florestais e Agrícolas Ltda.**
Fortrans N.V.
Island Risk Management Limited
MacMillan Bloedel Europe B.V.
MacMillan Bloedel Pty. Limited
MacMillan Jardine (Japan) Limited
MacMillan Jardine Limited
MacMillan Jardine (Malaysia) Sendirian Berhad
MacMillan Jardine (South East Asia) Limited
Oceanspan Carriers Limited
P. T. Transcamp
Swedish Gulf Line, AB

Inactive (continued)

Salmon River Logging Company Limited

AFP Corporation
Canadian Gulf Lines Inc.
Canadian Gulf Line of Florida, Inc.
MacMillan Bloedel Investment Inc.
MacMillan Bloedel Radio System, Inc.
MB Subsidiary 74 Inc.
MacMillan Bloedel Timberlands Inc.
MacMillan Bloedel (USA) Inc.
The Alberni Paper Company, Inc.
WW1 Corporation

Cooks Corrugated Cases Limited
Hygrade Corrugated Cases Limited

Canadian Maas River Investment N.V.
Canadian Transport (Bermuda) Limited
Canadian Transport (Orient) Limited
Comfloresta-Parana Empreendimentos Florestais S.A.**
Comfloresta-Serrana Empreendimentos Florestais S.A.**
Companhia-Colonizadora do Ariry**
Florida Lines, Limited
MacMillan Bloedel European Holdings B.V.
MacMillan Bloedel Holdings S.A.
MacMillan Jardine International Limited
Mats Janson & Co. AB
Transcamp Limited

* November 30 year end for fiscal purposes.

** These companies are accounted for by the equity method (see Note 1(a)).

MacMillan Bloedel Limited

Head Office: 1075 West Georgia Street, Vancouver, B.C. V6E 3R9

Operations, Sales Offices and Distribution Centres

Logging Divisions, B.C.

Cameron
Chemainus
Cous
Estevan
Eve River
Franklin River
Hecate
Kelsey Bay
Kennedy Lake
Menzies Bay
Northwest Bay
Port McNeill
Queen Charlotte
Sarita
Shawnigan
Sproat Central Services
Squamish
Stillwater
Taylor
Tofino

Wood Preserving and Pole Manufacturing

New Westminster, B.C.

Lumber

Chemainus, B.C.
Harmac, B.C.
New Westminster, B.C.
Opelika, Alabama
Pine Hill, Alabama
Port Alberni, B.C.
Powell River, B.C.
Vancouver, B.C.

Plywood

Nipigon, Ontario
Pine Hill, Alabama
Port Alberni, B.C.
Vancouver, B.C.

ASPENITE* Panels

Hudson Bay, Saskatchewan
Thunder Bay, Ontario

*Registered Trade Mark

Particleboard

Pine Hill, Alabama
Vancouver, B.C.

Wood Products Specialties

Canada

New Westminster, B.C.
Lumber Specialties
Port Alberni, B.C.
Shingles
Lumber Specialties
Toronto, Ontario
Mouldings
Roof Trusses
Vancouver, B.C.
Panelboard Specialties
Pres-to-logs

United States

Edenton, N.C.
Wood Fencing and Lumber Specialties
Alpena, Mich.
Gladstone, Mich.
Stephenson, Mich.
Wood Fencing

Newsprint and Groundwood Papers

Port Alberni, B.C.
Powell River, B.C.
Saint John, N.B.

Pulp

Harmac, B.C.
Bleached Sulphate
Semi-bleached Sulphate
Port Alberni, B.C.
Unbleached Sulphate
Powell River, B.C.
Semi-bleached Sulphate

Other Paper and Board Products

New Westminster, B.C.
Fine Papers
Pine Hill, Alabama
Linerboard
Port Alberni, B.C.
Linerboard
Bellevue, Wash.
Secondary Fibres

Corrugated Containers

Canada

Winnipeg, Man.
Regina, Sask.
Edmonton, Alta.
Calgary, Alta.
New Westminster, B.C.

United Kingdom

Carnoustie, Angus
Hatfield, Herts.
Irvine, Ayr.
Nelson, Lancs.
Southall, Middlesex
West Auckland, Co. Durham
Weston-super-Mare, Somerset

United States

Elmira, N.Y.
Jersey City, N.J.
Union, N.J.
Odenton, Md.
Cleveland, Ohio
Centerville, Ohio
Marion, Ind.
Chicago, Ill.
Magnolia, Miss.
Little Rock, Ark.
Houston, Texas
Carson City, Calif.

Cartons

Burnaby, B.C.
Folding and Rigid Cartons
Milk Cartons
Specialty Cartons

Bag and Specialties

Burnaby, B.C.
Kraft Paper Bags
Notion and Millinery Bags
Wrapping Papers

Plastic Products

High Wycombe, England

Sales Offices and Distribution Centres

Building Materials

Canada

MacMillan Bloedel Building Materials

Dartmouth, N.S.
Moncton, N.B.
Drummondville, Que.
Montreal, Que.
Quebec City, Que.
Rimouski, Que.
Belleville, Ont.
Brantford, Ont.
Chatham, Ont.
Fonthill, Ont.
Kitchener, Ont.
London, Ont.
Orillia, Ont.
Ottawa, Ont.
Owen Sound, Ont.
Sudbury, Ont.
Thunder Bay, Ont.
Timmins, Ont.
Toronto, Ont.
Windsor, Ont.
Winnipeg, Man.
Regina, Sask.
Saskatoon, Sask.
Edmonton, Alta.
Calgary, Alta.
Lethbridge, Alta.
Vancouver, B.C.
Chemainus, B.C.
Port Alberni, B.C.

R. Laidlaw Lumber Co. Limited

Noranda, Que.
North Bay, Ont.
Ottawa, Ont.
Sault Ste. Marie, Ont.

Kingsway Lumber Co. Limited
Toronto, Ont.

MacMillan Jardine (North America) Limited
Vancouver, B.C.
Hardwoods

United States

MacMillan Bloedel (New York) Inc.
Stamford, Conn.
MacMillan Bloedel (Alabama) Inc.
Birmingham, Ala.
MacMillan Bloedel Sales Inc.
Honolulu, Hawaii

MacMillan Bloedel Building Materials

Walpole, Mass.
Rensselaer, N.Y.
Wayne, N.J.
Camden, N.J.
Baltimore, Md.
Fort Lauderdale, Fla.
Jacksonville, Fla.
West Hartford, Conn.

Atlanta, Ga.
Houston, Texas
Portland, Oregon

Robert S. Osgood, Inc.
Los Angeles, Calif.
Hardwoods

United Kingdom

MacMillan Bloedel Meyer Limited
London

MacMillan Bloedel Panelboard Agencies Limited
London

Australia

MacMillan Bloedel Pty. Limited
Sydney, Melbourne

Orient

MacMillan Jardine Limited
Hong Kong, Tokyo

Pulp and Paper

Australia

MacMillan Bloedel Pty. Limited
Sydney, Melbourne

Canada

MacMillan Bloedel Limited
Vancouver, B.C.

Orient

MacMillan Jardine Limited
Hong Kong, Tokyo, Singapore, Malaysia and Thailand

United Kingdom and Europe

MacMillan Bloedel Europe B.V.
Paris

MacMillan Bloedel Pulp and Paper Sales Limited
London

United States

MacMillan Bloedel Sales Inc.
Stamford, Conn.; Atlanta, Ga.
Powell River-Alberni Sales Corporation
Seattle, Wash.; San Bruno, Pasadena, Calif.
Star Terminal Company, Incorporated
San Francisco, Long Beach, Calif.

VIC WORTHY
Vice-President
and General Manager,
MB Building Materials

PERCY GOODWIN
Graderman, Logging

A black and white photograph of a man, likely a construction worker or miner, wearing a hard hat and suspenders. He is looking off to the side with a serious expression. The background is dark and industrial, with some text visible on a wall, including "Macmillan" and "Bleed". The lighting is dramatic, highlighting the man's face and the texture of his clothing.

Directors

Anson Brooks

Seattle, Washington, U.S.A.
President, Powell River-Alberni
Sales Corporation

A. B. Christopher

Vancouver, British Columbia
President, Montrose Development Ltd.

The Honourable

J. V. Clyne C.C., K. St. J.

Vancouver, British Columbia
Retired - Formerly Chairman of the
Board, MacMillan Bloedel Limited

J. O. Hemmingsen

Vancouver, British Columbia
Senior Vice-President, International
MacMillan Bloedel Limited

G. H. D. Hobbs

Vancouver, British Columbia
President, Cominco Ltd.

J. N. Hyland

Vancouver, British Columbia
President, Granduc Mines, Limited

Henry Keswick

London, England
Chairman, Matheson & Co., Limited

C. C. Knudsen,

Vancouver, British Columbia
President and Chief Executive Officer,
MacMillan Bloedel Limited

J. M. Meyer C.B.E.,

London, England
Chairman and Managing Director,
Montague L. Meyer Limited

William Moodie

Montreal, Quebec
President, Canadian Pacific
Investments Limited

E. C. Phillips

Vancouver, British Columbia
President and Chief Executive Officer,
Westcoast Transmission Company Limited

J. E. Richardson

Vancouver, British Columbia
Chairman of the Board,
MacMillan Bloedel Limited

I. D. Sinclair Q.C.

Montreal, Quebec
Chairman and Chief Executive Officer,
Canadian Pacific Limited

G. T. Southam

Vancouver, British Columbia
President, Gordco Investments Limited

J. A. Taylor

London, Ontario
Chairman, Canada Trust

The Honourable J. N. Turner

P.C., Q.C.

Toronto, Ontario
Partner, McMillan Binch

J. P. R. Wadsworth

Toronto, Ontario
Chairman, Confederation Life Insurance
Company

C. B. Wright

Seattle, Washington, U.S.A.
Private Investor

Executive Committee

J. E. Richardson (Chairman)

J. V. Clyne

G. H. D. Hobbs

J. N. Hyland

C. C. Knudsen

William Moodie

J. A. Taylor

C. B. Wright

Honorary Director

W. J. VanDusen

Vancouver, British Columbia

Senior Officers

J. E. Richardson Chairman of the Board

C. C. Knudsen

President and Chief Executive Officer

D. H. Fricker

Senior Vice-President, Law and Corporate
Affairs

J. O. Hemmingsen

Senior Vice-President, International

B. I. Howe

Senior Vice-President, Operations

D. H. Parkinson

Senior Vice-President, Finance and
Planning

Wilhelm Peppler

Chairman, MacMillan Bloedel Europe B. V.

J. H. Lawson

Group Vice-President, Raw Materials

J. St. C. Ross

Group Vice-President, Building Materials

R. V. Smith

Group Vice-President, Pulp and Paper

H. V. Townsend

Group Vice-President, Linerboard and
Packaging

Dr. O. L. Forgacs

Vice-President, Research and Development

G. J. Towill

Vice-President, Human Resources

Group Officers

K. G. Boyd

Vice-President, Allocation and Control, Raw
Materials

C. M. Dee

Vice-President and General Manager,
Panelboards

S. W. Forstrom

Vice-President, Manufacturing,
Pulp and Paper

A. C. McGougan

Vice-President, Trading Department

D. L. McLaughlin

Vice-President and General Manager, Pulp

D. B. Turner

Vice-President, Logging

R. N. Wiewel

Vice-President and General Manager,
Newsprint

Staff Officers

G. L. Ainscough Chief Forester

T. P. Boyle

Vice-President, Control and Information
Systems

F. H. Britton

Vice-President and General Counsel
Secretary

J. R. Croll

Vice-President, Administration

P. M. Downes

Vice-President, Corporate Communications

R. L. Gillen

Vice-President

E. G. Legg

Vice-President, Accounting

J. S. Rogers

Vice-President, Engineering

G. M. Wilson

Treasurer

R. D. MacFayden

Assistant Secretary

C. K. Smith

Assistant Secretary

Registrars and Transfer Agents

The Royal Trust Company

Vancouver

The Canada Trust Company

Calgary, Regina, Winnipeg, Toronto,
Montreal

The Chase Manhattan Bank

New York

Auditors

Price Waterhouse & Co.

Vancouver

Audit Committee

G. H. D. Hobbs

(Chairman)

J. V. Clyne

J. N. Hyland

William Moodie

J. A. Taylor

C. B. Wright

